

DOES SIZE MATTER?

New Zealand in Partnership with the European Union

A Small State Perspective

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Abstract

British accession to the European Union (EU) had far reaching economic, political and social consequences for New Zealand, forcing New Zealand to transform itself from a dependent subsidiary of Britain to acting as an independent small state for the first time. Although still in its infancy, the contemporary relationship New Zealand has formed with the EU is quite different to that it first established in the 1970s. It has increasingly become more institutionalised, with a slowly developing structural framework that facilitates the narrow areas of cooperation. Dominated by the important economic relationship, the main challenges faced are of an economic nature. But the relationship also encompasses areas of political and social cooperation including people-to-people links, the environment, educational linkages, mutual support for multilateral institutions and development in the Pacific.

As a small state, New Zealand is expected to display certain foreign policy behaviours in its interaction with bilateral partners. Small state theory forms the theoretical framework that explains New Zealand's behaviour in its foreign policy interaction with the EU. The theory was chosen for both its perceived usefulness in explaining and understanding the foreign policy behaviour of small states and for the apparent weaknesses of the theory, which is revealed in the case study of New Zealand-EU relations. This demonstrates how the theory is useful for its explanation of small state foreign policy behaviour, but also providing an insightful revelation of the theory's flaws. This thesis proposes modifications to small state theory in order to strengthen it, and make it more encompassing of the contemporary realities of small state foreign policy, demonstrating that size does matter when exercising a foreign policy.

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LIST OF ABBREVIATIONS

ACP	Africa, Caribbean and Pacific
APEC	Asia Pacific Economic Cooperation
ASEAN	Association of South East Asian Nations
CAP	Common Agricultural Policy
CFSP	Common Foreign and Security Policy
DGRTD	Directorate-General for Research and Technical Development
EC	European Community
EEC	European Economic Community
EU	European Union
EU-10	European Union 2004 accession states
EU-15	European Union member states prior to the 2004 enlargement
FAO	Food and Agriculture Organisation
FDI	Foreign Direct Investment
GATS	General Agreement on Trade and Services
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GNP	Gross National Product
GST	Goods and Services Tax
Hon	Honourable
ICT	Information, Communications and Technology
IMF	International Monetary Fund
IUU	Illegal, unreported and unrecorded fishing
JEC	Joint Economic and Trade Commission
MFAT	New Zealand Ministry of Foreign Affairs and Trade

MoRST	New Zealand Ministry of Research, Science and Technology
MRA	Mutual Recognition Agreement on Standards and Certification
NATO	North Atlantic Treaty Organisation
NZAID	New Zealand Aid
ODA	Official Development Assistance
OECD	Organisation for Economic Cooperation and Development
POPs	Persistent Organic Pollutants
Rt. Hon	Right Honourable
UK	United Kingdom
UN	United Nations
US	United States
WTO	World Trade Organisation

CHAPTER ONE

Introduction

New Zealand-EU Relationship

1.1 INTRODUCTION

This thesis investigates the contemporary relationship between New Zealand and the European Union. The purpose is to analyse and evaluate New Zealand's foreign policy behaviour within the present context of the EU's relationship with New Zealand and to ascertain whether New Zealand's foreign policy behaviour is predictable according to the small state framework. It will reveal the current economic and political status of the relationship, demonstrating what areas of the relationship are strong and what aspects have potential for stronger dialogue and cooperation. New Zealand's relationship with the European Union is important because it is currently New Zealand's second largest trading partner. The recent enlargement to twenty-five member states presents new challenges and opportunities for New Zealand to further expand its bilateral trade and political relations. The thesis applies small state theory as a theoretical framework to assess whether New Zealand acts as a small state when interacting with the European Union. This theoretical analysis will demonstrate that size does matter in the execution of a states foreign policy.

1.2 NEW ZEALAND AND THE EUROPEAN UNION

New Zealand's relationship with the European Union (EU) stems from British colonialism in the nineteenth and twentieth centuries. Britain's accession to the European Economic Community (EEC) in 1973 revealed New Zealand's vulnerability as a small state. However it also stimulated New Zealand's maturity as a nation, while trade issues resulting from this accession demonstrated the high calibre of its diplomatic staff. The economic realities of Britain's accession to the EEC prompted the transformation of New Zealand from an economically dependent subsidiary of Britain to an economically independent state for the first time. These events stimulated the growth of the New Zealand-EU relationship, making the EU a very important bilateral partner for New Zealand.

The contemporary bilateral relationship between New Zealand and the EU is quite different to that first established with the EEC, the EU's predecessor, in the 1970's as a by-product of British accession. European integration has deepened significantly with events such as the introduction of a single currency, EU enlargement and progress on political integration dramatically changing the design of the EU. Likewise, New Zealand has undergone significant change since British accession. Economic reforms of the 1980s, electoral reform of the early 1990s and the continual market diversification of agricultural exports with a focus towards the Asia-Pacific region, have all contributed to a remarkably different state from the New Zealand of the 1970s.

These changes have made it necessary for New Zealand to establish a formal relationship with the EU in recognition of the important role it plays for New Zealand, especially regarding its

economy. As New Zealand's second largest trading partner the EU is one of New Zealand's most important bilateral partners. Ongoing development of the relationship has produced a series of formal documents facilitating the partnership with some outlook towards future cooperation. The signing of the *Joint Declaration* in 1999 and a range of other Agreements and Arrangement contribute to the structural framework of bilateral relations, and provide the basis for mutual cooperation. Cooperation outside the sphere of economics includes areas such as multilateralism, Pacific development, education, environment, science and technology and people to people links.

1.3 TIME FRAME AND FOCUS

The timeframe of this thesis commences from 1999, as this is the date the *Joint Declaration* was signed between the two partners and marks the beginning of a formal bilateral relationship. Reference is made before this date throughout the thesis as, firstly, to understand the economic relationship it is necessary to demonstrate long term trends regarding the development and growth of trade between New Zealand and Europe. For this reason some of the economic discussion pre-dates 1999. Restrictions on the availability of official statistics are a limitation to the timeframe. Every effort has been made to make the economic statistics as recent as possible. Secondly, despite 1999 marking the formal beginnings, much of the structural framework that facilitates the relationship pre-dates the *Joint Declaration* and many of these documents remain important to the facilitation of the present relationship. References to these are made throughout the thesis as they are relevant to the discussion. It should be noted this thesis provides an analysis of the New Zealand-EU bilateral relationship, which treats the EU as a single institution. No attempt is made to discuss the twenty-five member

states of the EU on an individual basis. At points throughout the thesis, particularly regarding the economic analysis, the most important markets within the EU for New Zealand are identified to demonstrate the limited diversity of trade within the EU.

Small state theory provides the theoretical framework to assess New Zealand's foreign policy behaviour within the context of its bilateral relationship with the EU. The theory asserts the limited resources of small states restrict their ability to exercise a comprehensive foreign policy. It is therefore claimed they display predictable foreign policy behaviour. A framework of this behaviour has been developed and is applied to the relationship throughout the thesis. This analysis will also provide a useful test and critique of small state theory, highlighting whether the theory is a useful and comprehensive explanation of small state foreign policy interactions and revealing the theory's flaws. This will enable the thesis to propose modifications to the theory in order to strengthen it, and make it a more accurate representation of the contemporary foreign policy of small states such as New Zealand.

1.4 CHAPTER OUTLINE

Chapter two establishes the small state theoretical framework that will be applied to the New Zealand-EU relationship. It begins with a discussion of why there are small states before providing a definition of a small state which includes the application of a variables and a perception approach to distinguish that New Zealand is a small state. Six small state foreign policy behavioural characteristics are then outlined to distinguish the features of small state's foreign policy. These six criteria are applied to the bilateral relationship throughout the thesis. By applying behaviour criteria of small state theory the thesis will seek to explain whether

New Zealand acts as a small state within the context of its bilateral relationship with the contemporary EU.

Chapter three outlines the structural framework of the New Zealand-EU relationship. This discusses the important documents that formalise the relationship, established embassy representation and bilateral dialogue and the visits of Ministers and Commissioners. Chapter four discusses the bilateral economic relationship. Three important areas are identified within this context, merchandise trade, service trade and foreign investment, which contribute to the formation of the overall economic relationship.

A more in-depth discussion of contemporary economic challenges takes place in chapter five. This outlines discord surrounding the Common Agricultural Policy (CAP), New Zealand's cases against the EU at the WTO, and challenges posed to New Zealand by EU enlargement. Following this, the thesis moves from an economic focus to an investigation of the limited areas of mutual political and social cooperation in chapter six. It draws from the *Joint Declaration* and the *Priorities for Future Cooperation* document to outline people to people relations, multilateralism, education, science and technology, environment and Pacific development as the basis of mutual cooperation. The conclusion then summarises the six small state behavioural characteristics within the context of the New Zealand-EU relationship. This reveals certain flaws within the small state framework which leads into a section that discusses refining small state theory so its application is adaptable to the contemporary international community.

1.5 LITERATURE REVIEW

The academic literature discussing New Zealand's partnership with the European Union is very limited and primarily restricted to discussing the economic relationship. The majority of literature on the subject can be categorised under three distinct headings; British Accession to the European Economic Community (EEC), The Common Agricultural Policy (CAP), and European Enlargement. Each of these sub-categories are discussed through the lens of their impact on New Zealand, usually solely from an economic perspective.

Britain's Accession to the European Economic Community (EEC)

The first significant academic event to occur surrounding the impact of Britain's accession to the EEC on New Zealand was the 1970 conference out of which a compilation of papers were published,¹ portraying the event as potentially disastrous consequences for New Zealand. From this conference three notable historic publications² discuss the path of Britain's accession to the European Community in 1973 and the impact of this event on New Zealand. Each publication presents Britain's accession to the EC as one of the most significant events in New Zealand's history and marvel at the skill of New Zealand diplomats in securing deals with the EC, through Britain, for New Zealand dairy products, particularly butter and cheeses. The publications emphasise the significance of British accession to New Zealand and the warned of the potentially drastic and economically ruining effects this event posed;

Probably the most important event in New Zealand history outside of the two world wars took place at dawn June 23, 1971, when Britain agreed to terms with the European Common Market countries. Thus ended, for New Zealand, an

¹ See, Jackson and Keith, (1971), Fight for Life: New Zealand, Britain and the European Economic Community, Price Milburn, Wellington.

² See, Lodge, J, 1982; Robson, M 1972; and New Zealand Ministry of Foreign Affairs, 1971

*economic cliff-hanger – a nation’s fight-for-life – which had lasted for more than 10 years.*³

McMahon briefly discusses the arrangement’s that safe guarded New Zealand’s interest with British accession, outlining the impact on butter, cheese and sheepmeat.⁴ Brian Talboys’ speech *Dependence and Security: Independence and Opportunity* investigated the reduction of New Zealand’s reliance of the British market since 1940, concluding that diversification from this market was a positive step for New Zealand.⁵ A number of authors argue that New Zealand was at times used as a political pawn in British negotiations for accession to the European Community and domestically within Britain.⁶ The focus of Britain’s accession to the EC has recently been re-investigated in an article published by Barry Gustafson arguing that the special arrangements granted to New Zealand, for exports of dairy products, was more than what was expected by officials and ‘more than they deserved’⁷.

Common Agricultural Policy (CAP) Literature

The European Union’s Common Agricultural Policy (CAP) has been widely written on since Britain’s accession to the European Community.⁸ Since British accession it has also become an area of particular interest for authors analysing the relationship between New Zealand and the EU. Attwood published a significant work on the CAP and its implications on New

³ Robson, Michael, (1972), *Decision at Dawn: New Zealand and the E.E.C*, Baynard-Hillier, London.

⁴ See, McMahon, J, (1990), *New Zealand and the Common Agricultural Policy; future options for New Zealand*, Victoria University Press for the Institute of Policy Studies, Wellington.

⁵ Talboys, B, *Dependence and Security: Independence and Opportunity*, Palmerston North, Massey University, Occasional Publication No. 6, 1980.

⁶ See, Lodge, Juliet, (1982), *The European Community and New Zealand*, Frances Pinter, London; and George, S, 1990.

⁷ Gustafson, B, (2003), “More Than They Expected, and more than...They Deserved”: New Zealand and Britain’s Entry to the European Community”, *Asia-Pacific Journal of EU Studies*, vol 1, number 2, winter 2003.

⁸ See, Ackrill, R, 2000; Wyn, Grant, 1997; Ashton, Ritson, and Harvey, 1991; Marsh, and Green, 1991; Attwood, 1984; Gardner, 1996; Duchene, Szczepanik, and Legg, 1985; Hill, 1984; Buckwell, 1982; Pearce, 1981; Fennell, 1979.

Zealand, arguing that the long term future of access to the British market for these agricultural commodities seemed bleak. But Attwood also discusses British production trends, suggesting a decline of New Zealand's agricultural exports to Britain may have occurred despite the CAP.⁹ Kennaway further explored the impact of the CAP from a New Zealand perspective.¹⁰ These publications were later followed by McMahon's in-depth investigation of the Communities CAP and its impact on New Zealand. This publication discusses the impact of the CAP, reform of the CAP and investigates potential future options for New Zealand agriculture trade.¹¹ Grant discusses the impact of the CAP and its relation to New Zealand as a major producer of lamb and dairy products.¹² Gardner discusses the impact of the CAP policy for New Zealand and refers to the resentment this has caused amongst its largely unsubsidised farmers.¹³ Saunders and Mayrhofer investigate similar issues for the contemporary period, analysing the CAP policy, their reform and the implications for New Zealand using a partial equilibrium trade model.¹⁴ Saunders article further discusses reform of the CAP and the implications on New Zealand, with a specific focus on the dairy sector within a wider Asia-Pacific context.¹⁵

Holmes and Pearson discuss New Zealand trade with the European Community from a more general perspective, not limiting their analyses to the CAP. Their publication, *Meeting the*

⁹ Attwood, E.A, (1984), The Common Agricultural Policy, Sheffield Academic Press, Sheffield.

¹⁰ Kennaway, (1989), The External Impact of the Common Agricultural Policy: a New Zealand perspective, (Unknown)

¹¹ McMahon, J, (1990), New Zealand and the Common Agricultural Policy; future options for New Zealand, Victoria University Press for the Institute of Policy Studies, Wellington.

¹² Grant, (1997), The Common Agricultural Policy, St Martin's Press, New York.

¹³ Gardner, (1996), European Agriculture; policies, production and trade, Routledge, London.

¹⁴ Saunders, and Mayrhofer, 2003.

¹⁵ Saunders, "Changes in EU Agricultural Policy and their Potential Impacts on Australia, New Zealand and Japanese Dairy Sectors", Asia-Pacific Journal of EU Studies, vol 1, number 2, Winter 2003.

European Challenge; trends, prospects and policies, investigated the developments occurring within Europe, including the creation of the single market and developing relations with Eastern Europe, then applied these developments to the potential trade implications they posed for New Zealand.¹⁶

Enlargement Literature

Enlargement is a concept that has become monogamous with the European integration process and has been widely written on. The 2004 enlargement stimulated the publication of new literature analysing the accession of the EU-10 countries to the European Union.¹⁷ Taggart and Szczerbiak discuss the accession referendums held in a number of eastern states prior to enlargement and analyses their outcomes.¹⁸ Kaiser and Elvert provide a historical analysis of EU enlargement, discussing the accession process for a range of EU member states.¹⁹

Each enlargement has presented new challenges and opportunities for New Zealand in its quest to establish and maintain relations with the European Union. With the exception of the British accession, no other enlargement has caused as much concern for New Zealand as the 2004 enlargement did in integrating the former Eastern European states. As such the impact of the 2004 enlargement has been widely written on from a New Zealand perspective. While acknowledging the challenges facing New Zealand, Petrovic and Barrer (2002) provide a positive outlook for New Zealand, discussing the eminent enlargement as an opportunity for

¹⁶ Holmes and Pearson, (1991), Meeting the European Challenge: Trends, Prospects and Policies, Victoria University Press, Wellington.

¹⁷ See, O'Brennan, 2006; Pridham, 2005; Nugent, 2004; Cameron, 2004; Poole, 2003; Mair, and Zielonka, 2002; Cameron, 2002

¹⁸ Taggart, and Szczerbiak, (2005), EU Enlargement and Referendums, Routledge, London.

¹⁹ Kaiser, and Elvert, (2004), European Union Enlargement: a comparative history, Routledge, New York.

New Zealand to which it must adapt. Their article suggests New Zealand exports are protected from Eastern European enlargement for a variety of reasons, least of all the reputation for higher quality produce and seasonal differences.²⁰ Gibbons provides an in-depth analyses of effects of the 2004 enlargement on New Zealand's leading exports to Europe and how new competition from within the EU will affect New Zealand's existing exports.²¹ Ockelford produced a large study analyses the threats and opportunities posed to New Zealand's agricultural and food and beverage industries by the 2004 enlargement of the EU. Acknowledging the potential medium to long term consequences, Ockelford concludes that enlargement presents new opportunities for New Zealand exporters; "This investigation has shown that opportunities in niche product areas for New Zealand products in the new member states are likely to emerge".²² McMillan discusses the potential economic impact enlargement posed for New Zealand, but also looks at it from a wider political perspective warning that enlargement will make it increasing difficult for New Zealand to maintain a visible presence on the EU radar; "There is a risk that New Zealand will diminish in importance to the point that thinking about New Zealand will just not occur to many EU officials and politicians".²³

²⁰ Petrovic, M, and Barrer, P, (2002), "EU Enlargement to the East as an Opportunity for New Zealand", presented at New Zealand European Studies Conference: The New Europe; Rethinking Frameworks, Auckland, 29-30 August 2002.

²¹ Gibbons, M, (2004), "EU Enlargement and its Effects on New Zealand's Trade with the EU", Presented at, Outside Looking In; Multidisciplinary Perspectives on the EU from the Asia-Pacific Region Conference, Christchurch Arts Centre, 9-11 September 2004.

²² Ockelford, Rachel, (September 2004), EU Enlargement and the Implications for New Zealand Agriculture, New Zealand Trade and Enterprise, Wellington.

²³ McMillan, Stuart, "Enlarging the European Union; Stuart McMillan discusses the likely impact of the projected accessions to the European Union and foresees significant challenges for New Zealand", New Zealand International Review, May-June 2003, vol. 28, iss. 3, pp 7.

Political and Cultural Literature

A limited range of other literature on New Zealand/European Union cooperation investigates a variety of topical subjects. Wiessala (2004) looks at New Zealand-EU relations from a comparative perspective with Australia-EU relations asserting that both New Zealand and Australia have discovered and exploited both a multilateral and bilateral partnership with the EU, successfully closing the geographical gap between the two distant partners through cooperation and coordination efforts.²⁴ The National Centre for Research on Europe has undertaken a major research project entitled *Rediscovering Europe; New Zealand public, media and elite perceptions of the European Union*. This project has produced a number of reports including *Peripheral and Invisible?: The European Union in the New Zealand Media, 2000-2002* (2004), *New Zealand National Elite's Attitudes and Perceptions of the European Union - Interim report* (February 2004) and *External Perceptions of the European Union: A survey of New Zealander's perceptions and attitudes towards the European Union* (2003). Luciano and Mayes published a compilation of writings on New Zealand and Europe considering a variety of perspectives, discussing economic ties as well as covering historical and cultural links.²⁵

1.6 CONCLUSION

This thesis will be an important contribution to the contemporary literature of New Zealand's relationship with the European Union. The framework of small state theory will attempt to explain these foreign policy interactions, and the study will also provide a critique of this framework. The thesis will inherently have a strong economic focus investigating the trade

²⁴ Wiessala, George, "New Approaches to the Antipodes: Some Themes in EU Relations with Australia and New Zealand", *Asia-Pacific Journal of EU Studies*, vol 2, number 1, Summer 2004.

²⁵ Luciano and Mayes, (2005), *New Zealand and Europe: connections and comparisons*, Rodopi, New York.

challenges of a small state and will show the economic focus of the relationship emerges within a bilateral setting but also dominates dialogue within the multilateral sphere, a characteristic explained by small state theory. It will also contribute valuable analysis of non-economic areas of the relationship that are often overlooked, including the structural framework, political dialogue, people-to-people ties, development in the Pacific, environmental cooperation and mutual support for multilateralism. Although not as important as the economic relationship, the issues surrounding these factors are increasingly discussed in bilateral discussions as the relationship matures and begins to diversify from the traditional trade focus.

CHAPTER TWO

Theoretical framework: small state theory

2.1 INTRODUCTION

This chapter outlines and critiques small state theory, which is the theoretical framework that will be used to assess New Zealand's relationship with the European Union (EU). This chapter explores a variety of academic definitions from political science literature and also institutional definitions from the Commonwealth and the World Bank. This discussion is followed by analysis of the variables that qualify states as 'small states' and behavioural characteristics displayed in their foreign policy interactions. These variables are then applied to New Zealand to assess whether it is a small state on the basis of its size, perception and behaviour. First however, it will be outlined why there are small states.

2.2 WHY THERE ARE SMALL STATES

Modern historic events, such as the break-up of colonial empires, the rise of nationalism and the subsequent collapse of the Soviet Union, have resulted in the creation of many new states, resulting in many of the world's nation's being quite small. In 1945 there were 74 independent countries; currently there are 193 represented at the United Nations.¹ The end of the Cold War means that small states are less frequently used as pawns by the major superpowers seeking global influence and small states now have more freedom and scope to develop an independent foreign policy. The creation and strengthening of international

¹ Alesina, A, and Spolaore, E, (2003), pp 1, The Size of Nations, MIT Press, Massachusetts.

institutions such as the United Nations, European Union and NATO has embedded the idea of multilateralism, giving small states a voice on the world stage.²

2.3 DEFINING A SMALL STATE

This section discusses the variables that have been used to define small states. No definitive definition exists of precisely what comprises a 'small state', although size of resources and behaviour are widely used to determine whether a state is small. These variables are discussed in terms of size, including perception as a psychological resource, and foreign policy behaviour. These variables distinguish small states from other states. Many scholars offer various frameworks or characteristics, while many others criticise the term as being too broad.³ However, this section does propose a structured framework of the size variables, perception approach and behavioural characteristics that provides a rigid framework for discussing small states.

Scholars have presented a large number of variables in an attempt to define a small state but only a few of these variables have remained consistent throughout the literature. Fauriol, East, Vital, Sanders, Von Daniken and Henderson have discussed three common variables, population, geography, and GDP, as factors determining whether a state is 'small'. Other scholars have attempted to offer a variety of secondary criteria such as military capability, level of industrialisation and energy efficiency.⁴ To use a set of criteria in determining the

² Hey, Jeanne, (2003), pp 1, "Introducing Small State Foreign Policy", in Hey, Jeanne, (2003), Small States in World Politics; Explaining Foreign Policy Behaviour, Lynne Rienner Publishers, London.

³ Karsh, Efraim, (1988), pp 3, Neutrality and Small States, Routledge, London.

⁴ Henderson, John, (1991), pp 4, "New Zealand and the Foreign Policy of Small States", in Kennaway, and Henderson, (1991), Beyond New Zealand II: Foreign Policy into the 1990's, Longman Paul, New Zealand and Hey, J, (2003), pp 2, Small States in World Politics; Explaining Foreign Policy Behaviour, Lynne Rienner Publishers, London.

categorical size of a state, one must establish some form of criteria or framework for establishing what is and what is not a small state.

Some of these measures are ambiguous. For instance, if one takes the geographical area of a country as a measurement of smallness, should one include the size of the Exclusion Economic Zone (EEZ). A small landed country that possesses an economic right over a large ocean area could be considered a medium to large state in geographic and economic terms from income earned from fisheries and other resources. Björn Ólafsson argues it is necessary to account for the EEZ when assessing whether a country is a small state. Control of a large maritime area undoubtedly adds to the resource base of small states and increases their sphere of influence, but it also increases the cost of managing such resources.⁵

In addition to the academic definitions, various institutions have developed small state frameworks, particularly for developmental purposes. A joint task-force for the World Bank and the Commonwealth Secretariat developed an eight point characteristic framework of small states. These institutions consider the primary variable of a small state to be defined by a population threshold of less than 1.5 million, and consider this indicative of its limited resources.⁶ The institution's economic criteria claims small states have a narrow economic base, often due to remoteness and isolation, therefore demonstrate a dependence on trade for development.⁷ Using this variable and the following seven point framework the

⁵ Ólafsson, Björn, (1998), pp 37, Small States in the Global System; Analysis and Illustrations from the Case of Iceland, Ashgate, England.

⁶ Commonwealth Secretariat and World Bank, April 2000, pp 3, Small States; Meeting Challenges in the Global Economy, Washington, D.C.

⁷ Commonwealth Secretariat, Background Paper No. 9, Small States and Sustainable Development; Bridging the Gap, for the World Summit on Sustainable Development, Johannesburg, 26 August – 4 September 2002.

Commonwealth considers thirty-two of its fifty-three members to be ‘small states’. The characteristics identified by the Commonwealth and World Bank task-force include:⁸

- Openness to international markets exposing them to global shocks
- Susceptibility to natural disasters and environmental change
- Limited diversification of production markets
- Poverty
- Limited institutional capacity to participate in international finance and trade negotiations
- Income volatility due to exposure to fluctuations in world markets
- Limited access to external capital, due to a perception of high risk from investors in the private market

This institutional perspective is a severely inadequate definition of a small state. Such institutions are concerned with the economic development of countries, therefore provide a restrictive and narrowly focused developmental framework that links smallness with development. This restricts the application of the small state term and ignores the wider and more common context of a small state that does not impose a developmental limitation.

2.3.1 Size

Scholarly literature has provided a range of alternative explanations of small state theory and definitions defining a small state. Many different size variables have been used to make the determination whether a country can be classified as a small state. Most authors offer a combination of these variables to provide a framework for assessing what is a small state.

⁸ Commonwealth Secretariat and World Bank, April 2000, pp iv, Small States; Meeting Challenges in the Global Economy, Washington, D.C.

Common variables include population size, geographical area (land mass), size of Exclusive Economic Zone (maritime area), Gross National Product (GNP), and military expenditure.

East, commonly cited as the forefather of small state theory, proposes that the resources available to a state and its ability to utilise them are important in determining small states foreign policy behaviour. East provides two important factors as central to the concept of capacity to act: the size of a state's resources and its level of social organisation.⁹ This model considers resources from a material and human perspective. The size of a state's material resources, such as the size of land, population and GNP are important. It is these resources that limit the foreign policy objectives of states. However, simply possessing resources is not sufficient; a state must also possess the ability to extract, develop, train, manufacture and deliver such resources in order to utilise them for foreign policy purposes. Therefore, the human dimension and its ability to utilise available resources is also important.¹⁰ These resource factors influence the foreign policy activities of small states because they possess fewer resources and are less capable of utilising them.

Size should not be considered an interchangeable term with 'power', as a large population or geographic size does not guarantee wealth or influence. In terms of Gross National Product (GNP) per capita, only two of the world's top ten countries have a population exceeding five million people: the United States (population 260 million) and Switzerland (population 7 million). Norway and Sweden have populations of approximately four million, the remaining

⁹ East, M, (1978), pp 123, "National Attributes and Foreign Policy", in East, Salmore, and Hermann, Why Nations Act, London, Sage Publications.

¹⁰ Ibid, pp 126-134.

richest countries per capita all have populations under one million people.¹¹ Similarly, a small state should not always be assumed to be a weak state in the international system. Israel provides a good example of this; territorially it could be considered a micro state, with a land mass not much larger than many Island states in the Pacific. Nevertheless, on the world stage and within the Middle East region, Israel is a powerful state both militarily and economically capable of exerting influence.

International Trade Theory defines a country as small if it is unable to affect world prices by its trading. This seems an appropriate definition as small states tend to possess a trade focus in their foreign affairs. However, this is a macro-economic approach and ignores the micro-economic influence some small states possess on certain commodities. Salvatore draws attention to the fact that countries which may be considered small by some measure are capable of influencing world market prices of certain products. At times Switzerland has been able to influence the price of watches, Ghana of cocoa, Nicaragua of coffee and Kuwait of oil.¹²

Damijan claims the best way to use a set of variables is to produce a numerical index, as this will produce a robust framework and it allows countries to be comparatively analysed. The three variables preferred by Damijan are geography (land area), demographic (population) and economic (GNP). Damijan's model produced a numerical index that ranks 193 countries, classifying them as large, medium, small or micro-states. The purpose of the model is to take

¹¹ *The Economist (US)*, Dec 20, 2003, v 369, i8355, pp 108, When Small is Beautiful; Economics Focus (How Big Should Countries Be).

¹² Salvatore, Dominick, (2001), pp 73, "The Economic Performance of Small Versus Large Nations", in Salvatore and Damijan, (2001), Small Countries in a Global Economy; New Challenges and Opportunities, Palgrave, United Kingdom.

account of three identified dimensions, geographic, demographic and economic, that can influence the classification for the size of a particular state. By encompassing all three dimensions the model becomes inclusive of the most vital aspects of a state's resources that can determine its size and therefore how it behaves in its international and economic relations.¹³

Using this numerical model, Damijan classifies small states as those whose average absolute GDP value falls between \$US 10 and \$US 20 billion, whose population is, on average, between 8 and 13 million, and whose area, again on average, does not exceed 500,000 square kilometres.¹⁴ The economic, population and geographic measurements used for assessing a state's size contains a degree of overlap allowing for variation in states variables. This allows for flexibility because states do not strictly fit into a particular size category for all three variables. For example, a state may have a larger than average land mass but a comparatively small population or GDP.

¹³ Damijan constructed the following formula to incorporate the size variables and produce an aggregated size of a country. This allows countries to be comparatively assessed and indexed against other countries.

$$ASC_i = \frac{sA_i * w_1 + sP_i * w_2 + sG_i * w_3}{w_1 + w_2 + w_3}$$

Where:

ASC_i is the aggregated (adjusted) size of country i

sA_i is the ratio of the area of country i to the total world area;

sP_i is the ratio of the population of country i to the total world population;

sG_i is the ratio of the GDP (GNP) of country i to the total world GDP (GNP); and

$w_1 = 0.108$, $w_2 = 0.205$, $w_3 = 0.976$ are the weights calculated using principal components analysis (each of them expressing a proportion of the explained variance for GDP per capita through individual size components).

¹⁴ Damijan, Jože, (2001), pp 94, "Main Economic Characteristics of Small Countries: Some Empirical Evidence", in Salvatore and Damijan, (2001), Small Countries in a Global Economy: New Challenges and Opportunities, Palgrave, United Kingdom.

Table 2.1

Classification of countries according to size (mean, medium, maximum and minimum values), data for 1990.

	Large	Medium	Small	Micro
Economic Size (GDP, in USD billion)				
Mean	2670.71	351.79	21.88	1.33
Medium	2388.08	238.65	10.39	0.44
Maximum	5513.78	1265.75	138.55	6.85
Minimum	393.12	28.28	0.22	0.02
Demographic size (population in millions)				
Mean	379.83	82.93	13.06	1.07
Medium	178.00	39.38	8.31	0.32
Maximum	1088.43	824.73	109.41	6.29
Minimum	74.88	4.74	0.37	0.01
Geographic size (area in thousand sq. kms.)				
Mean	4959	2361	504	34
Medium	4954	575	272	11
Maximum	9573	17076	2718	252
Minimum	356	31	0	0

Source: Damijan, J, (1996), pp 72, Small Countries in World Trade, Ljubljana, Krt.

An advantage of using Damijan's model is that it allows a state to be reassessed as their base variables develop. Nations do not remain stagnant and can change between the various categories of state size because over a period of time a states population can increase significantly with immigration or birth rates. Likewise, its GNP can increase with the implementation of economic reforms or the exploitation of new technologies and natural resources. Damijan's model allows the variables to be updated as the natural and institutional development of countries occurs and their categorisation from micro, small, medium, large and hegemonic size can change up or down accordingly.

2.3.3 Perception

Due to the difficulties and often obscure definitions of small states using size variable, contemporary scholars consider perception an important feature of defining a small state. Hey, Rothstein, Keohane and Mulgan have discussed the perception approach to defining a small state, claiming it creates a more rigid framework for classifying how to determine a small state.¹⁵ This new approach eliminates the need for a strict definition of a small state to support the use of the theory because the size of a state is determined by perception, not a set of variables. This is necessary as size is a relative term so ascertaining set variables is often vague and difficult to provide a comparative assessment with other states. Hey asserts the concept of a small state is based on the idea of perception, which requires only that the citizens' and institutions of a country, or another country, perceive them as being small, and they shall be considered small if such a perception is commonly held.¹⁶ Karsh also uses the perception approach by defining small states as an "autonomous entity" with "unique psychological" and "behavioural characteristics and modes" that distinguish them from larger and more powerful states.¹⁷ The unique psychological factor originates from the perception that a state is small. The psychological perception of being small leads a state to demonstrate certain predictable foreign policy characteristics as people's perceived size is often a limiting factor in their decision-making in establishing policy.

¹⁵ Hey, J, (2003), pp 3, Small States in World Politics; Explaining Foreign Policy Behaviour, Lynne Rienner Publishers, London.

¹⁶ Ibid.

¹⁷ Karsh, Efraim, (1988), pp 3, Neutrality and Small States, London, Routledge.

2.3.4 Behavioural Characteristics of Small State Foreign Policy

Small states display certain foreign policy behaviour's when participating in the international arena. East claims small states tend to build relationships with other states that offer the greatest potential to increase their capacity to act by supplying resources that are otherwise unavailable to them. Small states tend to focus on issues regarding economic growth and development, so their foreign policies are considerably focused towards trade. They participate in, and encourage the utilisation of, multilateral and international organisations as these institutions provide an opportunity to be heard by many nations at the same cost of sending a delegation for bilateral talks.¹⁸

A behavioural framework has been derived by Henderson from East's original 'national attributes' framework. These characteristics provide a structural context for explaining the foreign policy behaviour of small states. Henderson's six characteristics are:

- Low participation in world affairs
- Narrow scope of foreign policy behaviour
- Economic focus
- Internationalism through international organisations
- Moral emphasis on international issues
- Avoidance of foreign policy behaviour that might alienate more powerful states.¹⁹

The first behavioural characteristic explains that small states tend to display a low level of participation in world affairs. Because of limited resources they are highly selective in their

¹⁸ East, M, (1978), pp 136-137, "National Attributes and Foreign Policy", in East, Salmore, and Hermann, Why Nations Act, London, Sage Publications.

¹⁹ Henderson, John, (1980), pp 4, "The Foreign Policy of a Small State", in Henderson, Jackson and Kennaway, Beyond New Zealand: the Foreign Policy of a Small State, New Zealand, Methuen.

foreign policy approaches to international issues with a tendency to be involved in issues that present minimal risk but maximum benefit. The low level of participation also reflects the limited diplomatic resources available to small states due to the high expense of maintaining overseas delegations. A limited pool of diplomatic personnel to conduct foreign policy limits a small state's approach to international relations. A narrow scope of foreign policy is the second behavioural characteristic displayed by small states. Because of limited resources, small states limit the scope of their foreign policy to regional issues or matters of direct concern. Thirdly, small states give priority to economic issues in determining their foreign policy. With a high degree of dependency on foreign trade, and a limited range of commodities and export markets, small states remain vulnerable to fluctuations in international markets. These can have severe consequences of the undiversified economies of small states, hence the economic domination of their foreign policies. A trade focus is also necessary as small states lack a domestic market large enough to sustain self-efficient economic growth, resulting in their dependency of foreign markets.²⁰ The fourth behavioural characteristic is internationalism through international institutions (multilateralism). Small state theory claims such states will seek to achieve their foreign policy ends through cooperation with other states, rather than acting alone. Incapable of providing complete security, small states are required to form alliances with other states or institutions. This not only applies to security, but also economics because small states lack the resources to force larger states to abide by fair trade practices. Therefore they tend to operate in and promote

²⁰ Thakur, Ramesh, (1991), pp 256, "The Elusive Essence of Size; Australia, New Zealand, and Small States in International Relations", in Higgott and Richardson, (1991), International Relations: Global and Australian Perspectives on an Evolving Discipline, The Department of International Relations and Research School of Pacific Studies, Canberra.

multilateral institutions, such as the WTO, which enhances their ability to persuade, and force, other states to employ fair trade standards.

The last two behavioural characteristics possess overlapping qualities, and the final characteristic is considered controversial by some scholars. Small states tend to advocate a morality within their foreign policy and support moral causes and international law. This type of foreign policy allows them to promote moral ideals that do not create undue suspicion or resentment, providing protection of their vulnerable security and economic interests. If a larger trading partner resents a small states' foreign policy it may become reluctant to trade with the smaller state, or even suspend trade relations. This can cause significant harm to the economies of small states by reducing export receipts. Overlapping this characteristic is the behaviour of avoiding foreign policy that might alienate more powerful states. This is a controversial characteristic of small state behaviour because it ignores the reality of global diversity and the need to establish bilateral relations with a range of other states. To agree with one state often means disagreeing with another. It is therefore important for small states to establish a balance within their foreign policy decisions. It is suggested that when small states act belligerently, they do so due to a lack of foreign policy resources resulting in an inability to identify other choices of action. This claim is also problematic, as it assumes size and not intellectual capacity as the most important variable in establishing a states foreign policy.

2.4 CRITIQUES OF SMALL STATE THEORY

Many scholars question how small state theory contributes to the field of international relations in the absence of a widely accepted definition of what constitutes a small state. Karsh doubts whether the theory provides a robust analytical framework because it lacks any clearly defined characteristics and variables defining a small state.²¹ However, theorists advocating the use of small state theory as a beneficial tool for assessing foreign policy behaviour claim no universally applicable small state definition is necessary, as many studies do not propose finding a fundamental characteristic that can be used to explain characteristics of all small states.²² Rather by applying variables, such as population, geography or economic size, to a specific case study, one can apply the characteristics of small state foreign policy behaviour to assess whether a particular state displays these characteristics. Additionally, small state studies tend to be undertaken from a comparative perspective, allowing the theory's relational application to explain foreign policy behaviour between two actors, therefore permitting an assessment of size comparative to the other.

Thakur argues the 'small state paradox' weakens small state theory, as it is often approached from the perspective that smallness is a problem. Small states were considered suboptimal and therefore vulnerable to political and economic pressures that arise in international relations and trade.²³ Thakur questions how small states have survived, and, since the creation of the United Nations, even proliferated.²⁴ Thakur questions how the small state

²¹ Karsh, Efraim, (1988), pp 3, Neutrality and Small States, Routledge, London.

²² Ólafsson, Björn, (1998), pp 3, Small States in the Global System; Analysis and Illustrations from the Case of Iceland, Ashgate, England.

²³ Ibid, pp 1.

²⁴ Thakur, Ramesh, (1991), pp 242, "The Elusive Essence of Size; Australia, New Zealand, and Small States in International Relations", in Higgott and Richardson, (1991), International Relations: Global and Australian

remains a viable entity as they are operating their foreign policy apparatus from a vulnerable or weak position in the global environment. Handel continues this path of criticism stating that the increasingly diverse membership of the 'small state' category makes it more difficult to assign any common denominator other than one of overall relative weakness.²⁵

Regional integration dilutes the traditional understanding and sovereignty of a 'state', as regional institutions and policy makers encroach on policy areas traditionally undertaken at the state level. Smaller states find themselves attaining increased influence within their region and ultimately foreign policy influence within the wider global community. Jeanne Hey discusses the case of Luxembourg as a small state within the European Union and the undue influence it has asserted within the supranational institution. The degree to which the European Union is integrated into Luxembourg life cannot be overstated, especially because Luxembourg has come to depend heavily on the EU to achieve its own foreign policy goals. The structure of EU institutions, providing equality amongst members, ameliorates many of the adverse consequences of Luxembourg's small state status.²⁶

Regional integration and multilateralism also provide some basis for critiquing small state theory. International institutions such as the United Nations, European Union, World Trade Organisation or the World Bank, to name a few, provide smaller states an arena to voice their concerns and pursue policy objectives on the world stage often gathering a coalition of support from other international actors. This renders the size factor of states irrelevant as

Perspectives on an Evolving Discipline, The Department of International Relations and Research School of Pacific Studies, Canberra.

²⁵ Handel, Michael, (1990), pp 30, Weak States in the International System, Frank Cass, England.

²⁶ Hey Jeanne, (2003), pp 77, "Luxembourg: Where Small Works (and Wealthy Doesn't Hurt)", in Hey, Jeanne, (2003), Small States in World Politics: Explaining Foreign Policy Behaviour, Lynne Rienner, London.

small states are given equal speaking rights and able to exert influence disproportionate to their size. Nevertheless, small states operating within such institutions still find themselves at a disadvantage when it comes to initiating policy issues and more often still find themselves having to rely on the support of other influential actors to push their policy objectives.²⁷

2.5 THE SMALL STATE: LITERATURE AND NEW ZEALAND

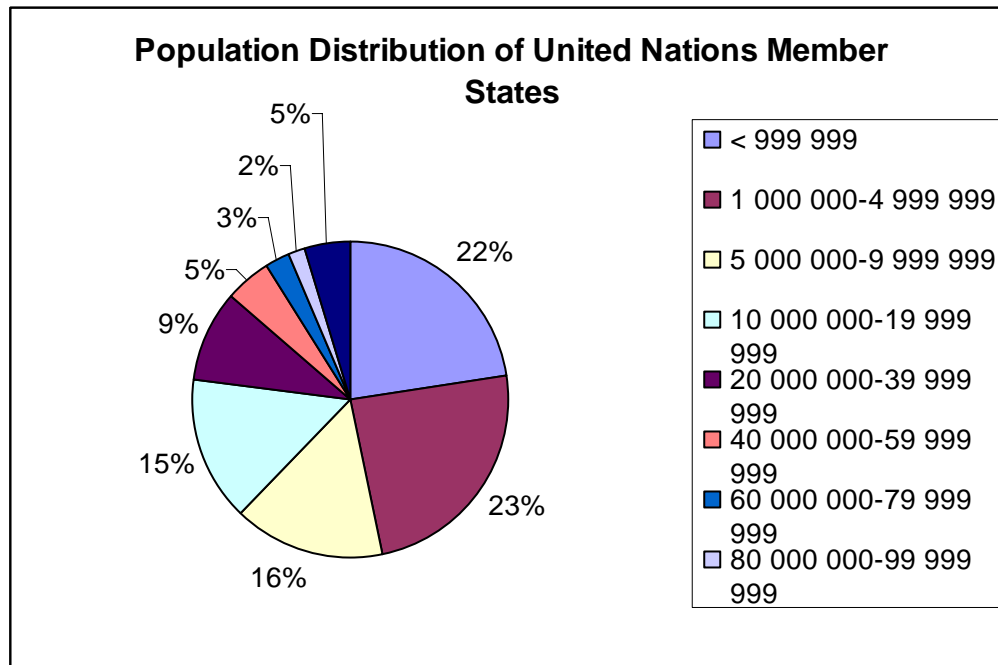
2.5.1 Application of Variables

Mulgan proposes assessing New Zealand's size comparatively with other nations, using member states of the United Nations (UN) as a framework for assessing population size. Looking at the rankings of these countries, Mulgan contends New Zealand is only about half way down the list, suggesting from this perspective it is more of a middle-sized country.²⁸ In terms of population, New Zealand is in the lower half of population size of UN member states. Over sixty percent of UN member states have a population less than ten million, the population grouping of one to five million, that New Zealand belongs, accounts for nearly a quarter of the nations represented at the United Nations (see fig. 2.1). Indeed, as a total quantity, small states are relatively common and large states, with a population exceeding forty million, are rare.

²⁷ Hampton, Rebecca, (1998), pp 18-19, An Examination of the Validity of Small State Theories to the Study of New Zealand Foreign Policy, A Thesis Submitted in Fulfilment of the Requirement for the Degree of Masters of Arts in Political Science in the University of Canterbury.

²⁸ Mulgan, Richard, updated by Aimer, Peter, (2004), pp 20, Politics in New Zealand, 3rd Edition, Auckland University Press, Auckland.

Figure 2.01



Source: figures derived from United Nations

However, a ranking cannot determine the size of a state. As indicated, the majority of the world's states have populations less than ten million meaning to consider New Zealand as a large state based on its global ranking is misleading. New Zealand does fit within the small state category when applying the three favoured size variables, geography, population and GDP. By applying these statistics to the world averages in a table 2.1 produced by Damijan, we see that in the case of New Zealand the land mass and population variables fit in the characteristics of a small state, but GDP is not a direct fit. New Zealand's GDP in 2003 was \$US 76.3 billion.,²⁹ its geographic size is approximately 268 000 sq km³⁰ and its population (as at January 2005) is 4,085,990.³¹

²⁹ World Bank, (14/09/2004), *New Zealand at a Glance*, available on the World Wide Web at http://www.worldbank.org/data/countrydata/aag/nzl_aag.pdf, accessed on 12/01/2005.

³⁰ The Treasury, *New Zealand: Area and Population*, Wellington, New Zealand, available on the World Wide Web at <http://www.treasury.govt.nz/nzefo/2000/area.asp>, accessed on 12/01/2005.

This GDP is significantly higher than the mean GDP of the 193 countries included in the statistical table, however it is also significantly lower than the unknown GDP countries that have been classified as a small state. It does fall outside the \$US 10 to 20 billion range Damijan suggests as the appropriate size of GDP to fit the small state category. Nevertheless, New Zealand's GDP is below the maximum threshold for small state in Damijan's model. Therefore, although its GDP is a closer fit of a 'medium' size state, it cannot be ruled out of the small state category on the economic variable.

Secondly, the higher than average GDP is balanced by New Zealand's lower than average population size. At a little over four million people, New Zealand's population is somewhat lower than the mean of 8.31 million for the small state category, and lower than Damijan's suggested 8 to 13 million range of small states. Although its population size should not be rendered into the micro-state category as it is significantly higher than the mean of this category, and its other variables cancel any consideration of doing so. Lastly, New Zealand's land area, or its geographic size, accurately fits Damijan's classification of a small state. At 268 000 sq km, New Zealand's land area is a near perfect match of the mean 272 000 sq km of a small state.

Salvatore provides a population scale that places New Zealand within the small state category. A population of approximately four million people is classified by Salvatore as a 'very small'

³¹ Statistics New Zealand, (12/01/2005) *Estimated Resident Population of New Zealand; Population Clock*, Wellington, New Zealand, available on the World Wide Web at <http://www.stats.govt.nz/populationclock.htm>, accessed on 12/01/2005.

state with a population distribution of one and five million.³² When considering New Zealand's GDP against its population size, Salvatore concludes New Zealand to be 'very small high-income state'.³³ This shows the use of 'smallness' can be applied to comparatively high-income countries and not solely in terms of development, as defined by many development institutions.

2.5.2 Perception of New Zealand as a Small State

The size of a state is often determined by perception. The population size is central to reaching this perceived determination as it is often the sole variable that creates the perception of whether any given state is large or small. This psychological factor is prevalent in New Zealand, as a common belief of New Zealanders is that they live in a small country. Mulgan suggests this perception arises because people tend to perceive New Zealand's size in context of other similar countries 'developed' or 'western' nations.³⁴ Therefore, New Zealanders seek comparison with countries that share a similar living standards and economic, social and political institutions. The OECD provides a useful framework for analysis of this perception as its membership is of similar countries.³⁵ Using this organisation for a comparative size assessment, only Ireland, Luxembourg and Iceland have a smaller population than New Zealand of the OECD's thirty member states.³⁶ This demonstrates New Zealand can be classified a small state when compared with similar countries and is consistent with the

³² Salvatore, Dominick, (2001), pp 73, "The Economic Performance of Small Versus Large Nations", in Salvatore and Damijan, (2001), Small Countries in a Global Economy; New Challenges and Opportunities, Palgrave, United Kingdom.

³³ Ibid.

³⁴ Mulgan, Richard, updated by Aimer, Peter, (2004), pp 20, Politics in New Zealand, 3rd Edition, Auckland University Press, Auckland.

³⁵ Ibid.

³⁶ OECD, December 2004, "Total Population for OECD Countries", Quarterly Labour Force Statistics, No. 4, available on the World Wide Web at <http://www.oecd.org/dataoecd/62/38/2698549.pdf>, accessed 21/01/2005.

psychological perception factor widely discussed. Mulgan suggests that to perceive New Zealand as a small agricultural country is a statement of the international grouping to which it wants to belong. If New Zealand belongs to any family of nations it is primarily to the European family in terms of the type of society New Zealand originates from and aspires to be in context of development.³⁷

This perception is clearly evident within the context of the bilateral relationship between New Zealand and the European Union. Considering the EU as a single entity, reveals New Zealand as the considerably smaller partner, therefore likely to display certain small state characteristics in the bilateral relationship. A comparative assessment, using the size variables of population, GDP, per capita income and land mass, demonstrates the size differentiation is not only perceptual, but can also be qualified.

Table 2.02

European Union and New Zealand; Comparative Size Assessment			
Variable	European Union		New Zealand
Population ³⁸	456 285 839		4,085,990
GDP \$US (2003) ³⁹	EU-15 (€)	EU-25 (2004 est.) ⁴⁰ (€)	
Total	10 181.0	€10 202.3	92.1
Per Capita	26 600		\$US 21 600
Land Area (sq km)	3 976 372		268 000

³⁷ Mulgan, Richard, updated by Aimer, Peter, (2004), pp 22-23, *Politics in New Zealand*, 3rd Edition, Auckland University Press, Auckland.

³⁸ CIA World Factbook, available on the World Wide Web at <http://www.cia.gov>, accessed on 25/01/2005.

³⁹ OECD, *National Accounts of OECD Countries; Gross Domestic Product*, OECD, Paris, 2004, pp 12-13, available on the World Wide Web at <http://www.oecd.org/dataoecd/56/4/33746760.pdf>, accessed on 26/12/2005.

⁴⁰ Eurostat, (2005), "GDP and Main Components - Current prices; 2004 forecast", available on the world wide web at <http://www.europa.eu.int>, accessed 26/01/2005.

Because size is relational, it is often perceived as a comparative tool rather than an absolute criterion and becomes a perception or belief.⁴¹ Comparatively, as has been demonstrated, New Zealand can be considered small in its foreign policy interaction with the European Union. However if one considers New Zealand in its regional context then it can be perceived as a middle-large state on economic, geographic, military and political dimensions.⁴² Within the South Pacific, New Zealand can be considered large with which ever variable one wishes to measure size. In the Pacific Island context New Zealand is large using all commonly used variables including population, GDP, land mass, social organisation, and military expenditure. Mulgan suggests New Zealanders may see their economic and strategic interests closely associated with the Pacific and Asian regions but do not identify with them in terms of the type of society they aspire to in terms of the level of economic, social and political development.⁴³

Indeed, within the OECD context New Zealand is perceived as a small agricultural country within a Western context. However, within the Pacific region, particularly Polynesia where New Zealand accepts a leading role of a major metropolitan actor to the micro-states, the perception of New Zealand is as comparatively large in the political and economic lives of those in the Pacific as Germany and France are to those in the EU.⁴⁴ Within this perceptual

⁴¹ Thakur, Ramesh, (1991), pp 245, "The Elusive Essence of Size; Australia, New Zealand, and Small States in International Relations", in Higgott and Richardson, (1991), International Relations: Global and Australian Perspectives on an Evolving Discipline, The Department of International Relations and Research School of Pacific Studies, Canberra.

⁴² Ibid, pp 243.

⁴³ Mulgan, Richard, updated by Aimer, Peter, (2004), pp 22, Politics in New Zealand, 3rd Edition, Auckland University Press, Auckland.

⁴⁴ Mulgan, Richard, (1998), pp 22, Politics in New Zealand, 2nd Edition, Auckland University Press, Auckland.

context New Zealand is a middle to large actor in its regional setting in terms of its economic, political, military and population size.⁴⁵

2.5.3 New Zealand Foreign Policy Behaviour

New Zealand's foreign policy is discussed in terms of the six foreign policy behavioural characteristics and will now be analysed.

i. Low Participation in World Affairs

This characteristic is reflected in the small number of New Zealand's embassies across the globe, the low number of staff at each of these embassies, and the high number of cross-accredited representatives. The recent EU enlargement has been reflected in New Zealand's belated decision to open a three person diplomatic post in Poland in the former Eastern Europe. However, the likelihood of New Zealand dramatically increasing its overall stock of global or European posts, in accordance with small state theory, is very low. New Zealand does participate in many areas of world affairs; however, characteristics of small state behaviour are relative to the behaviour of larger countries and are not absolute. Therefore, New Zealand need not have a low participation in world affairs to fit the small state model, but just a lower participation than that of a big state.

ii. Narrow Scope of Foreign Policy Behaviour

Certainly, since Britain's accession to the European Union, New Zealand foreign policy has focused more on the Pacific region, however it also participates widely in international trade

⁴⁵ Thakur, Ramesh, (1991), pp 243, "The Elusive Essence of Size; Australia, New Zealand, and Small States in International Relations", in Higgott and Richardson, (1991), International Relations: Global and Australian Perspectives on an Evolving Discipline, The Department of International Relations and Research School of Pacific Studies, Canberra.

and other events of global importance. Despite this, New Zealand's foreign policy scope is limited compared with its larger neighbour Australia. The main function of New Zealand's diplomatic posts is the promotion of trade, and it focuses attention on those areas which have trade importance to New Zealand, providing another explanation for New Zealand's limited representation in Eastern Europe. Comparatively with Australia, New Zealand has significantly fewer diplomatic posts globally, and is, as mentioned, heavily focused on securing trading relationships.

iii. Economic Focus

New Zealand's foreign policy is often focused on building economic relationships and this reflects its high dependence on agricultural exports, leaving it vulnerable to fluctuations in the global economy. Foreign policy objectives are often dictated by economic needs, because the outcome of economic undertakings is important to a nation's domestic welfare. The economic reforms of the 1980's, freeing up New Zealand's economy and attracting foreign investment has added to the importance of quality economic policy and judgement.⁴⁶

iv. Internationalism Through International Institutions

New Zealand's emphasis and support of the World Trade Organisation and United Nations is testimony to the multilateral aspect of small state behaviour. By working through multilateral institutions, New Zealand's voice can be heard by multiple countries for the same expense of sending a single delegation for bilateral talks. This is effective use of limited diplomatic resources, and permits New Zealand to participate in the international arena.

⁴⁶ Henderson, John, (1991), pp 9, "New Zealand and the Foreign Policy of Small States", in Kennaway, and Henderson, (1991), Beyond New Zealand II: Foreign Policy into the 1990's, Longman Paul, New Zealand.

v. Moral Emphasis on International Issues

Small states display morality in their foreign policy behaviour. This is achieved by supporting moral causes in the international arena and supporting international legal norms. Moral issues New Zealand supports or carefully balances include religion, culture, environment, fisheries, international conflict and international law. Taking a moral stance on issues can create conflict between a small state and a larger trading partner. For example, New Zealand preaches a moral stance against whaling in the international community. Although a major trading partner, New Zealand vehemently opposes Japanese whaling during the whaling season and through the multilateral arena at the International Whaling Commission (IWC).

vi. Avoidance of Foreign Policy Behaviour That Might Alienate More Powerful States

New Zealand has tended, with only a few exceptions such as the nuclear ban and Rainbow Warrior, to follow a foreign policy which has avoided actions likely to alienate larger powers. It should be noted, that on occasions New Zealand does not comply with larger states, such policy action seems quite deliberate and not ignorant due to a lack of available resources to foreign affairs. This feature contradicts the claim of neutrality by Karsh, as neutrality can alienate states that are more powerful. However, this is not to deny neutrality as a foreign policy tool for small states, as diplomacy can often ensure its utilisation while maintaining relationships with more powerful states.

2.6 CONCLUSION

Small state theory is comprised of two components: perceptions and behavioural characteristics. Various institutional approaches have attempted to define a small state, but

have produced an inadequate framework because of the necessity to link it with a developmental approach. By applying the components of the small state framework to New Zealand it has been determined that it meets the criteria to be determined a small state. The three common variables used to assess the size of states by Damijan, geography, population and GDP, places New Zealand in the small state category. While its larger than average GDP could be considered similar to that of a medium size state, Salvatore proposes terming New Zealand a 'very small high income state'. This approach signals the valid application of small state theory to developed states and not solely to underdeveloped or poor countries.

The contemporary perceptual approach has been developed to counter many of the critiques of small state theory that it does not provide a rigid framework defining a small state. This approach defines New Zealand as a small state as its size is often perceived as small, both internationally and within her own borders. Although, its small state foreign policy needs to be considered on an individual basis depending which bilateral relationship is being considered. New Zealand is a small state when dealing with larger, important trading partners such as Australia or the EU. But in regards to the Pacific, a region of micro-states, New Zealand's foreign policy role and its displayed behaviour is expected to be considerably different.

The foreign policy behaviour of New Zealand can be explained using the small state theoretical framework as it provides a set of characteristics that explain their foreign behaviour. Accordingly, New Zealand's foreign policy is expected to display an economic focus in its foreign policy objectives, emphasise multilateralism, exercise morality,

demonstrate a narrow scope in its foreign policy, avoid alienating behaviour and have a low level of participation in world affairs. This framework can be tested by applying it to the context of New Zealand-EU relations. The EU provides a unique case study as it is a considerably larger international actor; therefore New Zealand is expected to display the small state characteristics within the context of the bilateral relationship.

CHAPTER THREE

Structural Framework

3.1 INTRODUCTION

The contemporary relationship between New Zealand and the European Union stems from close historical ties with Britain, and is primarily exercised through the important economic relationship. Much of the contemporary dialogue is dominated by discussion that seeks to strengthen and expand the trading partnership. This economic focus is consistent with small state theory, and testament to New Zealand's unique ability to produce a beneficial trade agenda in bilateral discussions. Dialogue between the two partners occurs on a regular basis and many common areas for cooperation have been identified and are routinely explored, such as the global trading system, Pacific development, science and technology, education and the environment. These areas are outlined in the various formal agreements that form the structure of the relationship, which ensures dialogue can be extended to other areas of common interest, including issues like the Kyoto Protocol, Middle East peace process and global terrorism, when both partners believe it to be of mutual interest.

This chapter first discusses small state theory as it relates to the various frameworks that establish the institutional aspect of the relationship. It then outlines the agreements and arrangements that facilitate the relationship, providing analysis of the most important. It then discusses the bilateral dialogue, including bilateral visits and Ministerial Consultation. It also looks at the relevance of diplomatic posts and where they are located to provide analysis of New Zealand and EU representation. It then concludes by discussing the

weaknesses contained in the structural framework.

3.2 SMALL STATE THEORY

A major focus of the small state framework determines the foreign policy of small states is focused on economic and trade relations.¹ The context of the New Zealand-EU relationship is testament to this characteristic. The structural framework of the relationship is overwhelming focused on facilitating trade between the two partners. The *Joint Declaration* is heavily weighted towards outlining an economic framework for future trade cooperation and providing direction to advance this aspect of the relationship. Additionally, the two main Agreements that have been negotiated, the *Mutual Recognition Agreement* and *Veterinary Agreement*, combine to facilitate trade in industrial and agricultural goods between the two territories.

Small state theory acknowledges the preference of small states to enter into multilateral agreements. The tendency of small states to exercise their foreign policy within the confines of multilateral institutions is a criteria established within Henderson's small state framework.² The preference arises from the ability to speak and negotiate with many other international actors in a single multilateral institution. This explains the emphasis New Zealand places on promoting relations with the European Union and seeking to exercise the bilateral relationship at the World Trade Organisation (WTO) and the United Nations (UN). With extremely limited diplomatic representation throughout Europe, the EU provides a forum that New Zealand can negotiate trade issues with all member states within a single institution. Hence, much of the structural framework that facilitates the bilateral relationship encourages mutual cooperation and support for multilateral

¹ Henderson, John, (1991), pp 9, "New Zealand and the Foreign Policy of Small States", in Kennaway, and Henderson, (1991), *Beyond New Zealand II: Foreign Policy into the 1990's*, Longman Paul, New Zealand.

² Ibid.

institutions. These institutions are useful for exercising the bilateral relationship because many of the shared objectives are universal goals that require participation from the wider international community for their successful realisation.

A strong sense of morality emerges from the structural framework, which remains consistent with the principles of small state theory. Moral components are included in the *Joint Declaration* which emphasises the principles of human rights, democracy, the rule of law, sustainable development, environment protection, non-proliferation of weapons and the promotion of cultural harmony. This links with another criterion of small state theory, that of avoiding foreign policy behaviour that may alienate more powerful states.³ The promotion of morality within its foreign policy is less likely to offend other key political actors or trading partners. Morality provides a safe foreign policy option which allows New Zealand to establish a formal framework and embark a foreign policy agenda with the European Union without alienating other important partners such as Australia, China or the United States.

3.3 KEY AGREEMENTS AND ARRANGEMENTS BETWEEN NEW ZEALAND AND THE EUROPEAN UNION

The structure of the relationship is facilitated by a range of agreements and arrangements signed between New Zealand and the EU. These provide a formal framework unto which the relationship can progress and outline specific areas of common interest deserving joint cooperation. This section outlines these agreements (see table 3.01), discussing their purpose and how they facilitate particular aspects of the relationship. The most significant of the agreements is the *Joint Declaration*, which is a generic document providing economic and political direction for areas of mutual cooperation. Other agreements and

³ Ibid.

arrangements facilitate specific areas of the relationship and often pre-date the *Joint Declaration*, demonstrating the development of the relationship throughout the 1990s. These agreements cover a range of areas relevant to the relationship and combine with the *Joint Declaration* to establish an overall framework for the formal bilateral relationship. As many of these agreements are merely regulatory they are not in themselves overly significant to the relationship, although they do form the formal framework and contribute to the mechanical working of the relationship. The agreements are important in facilitating many of the important commodities traded between New Zealand and the EU and are therefore necessary in ensuring trade potential is maximised.

Table 3.01

AGREEMENTS AND ARRANGEMENTS BETWEEN NEW ZEALAND AND THE EUROPEAN UNION	
DECLARATION	SIGNATORY DATE
Joint Declaration	1999
EXISTING AGREEMENTS	SIGNATORY DATE
Mutual Recognition Agreement on Standards and Certification (MRA)	1999
Veterinary Agreement	1997 (implemented 2003)
COOPERATION ARRANGEMENTS	SIGNATORY DATE
Science and Technology	1991
MISCELLANEOUS	DATE
New Zealand and the European Union; priorities for future cooperation	2004
AGREEMENTS UNDER NEGOTIATION	COMMENCEMENT DATE OF NEGOTIATIONS
Wine Agreement	Originally begun in 1994 (Due to fundamental differences negotiations ceased in 1997, 1998, 2000 and 2001)
PREVIOUS AGREEMENTS	SIGNATORY DATE
Agreement Amending the Joint Discipline Arrangement Concerning Cheese	1984
Voluntary Restraint Agreements with New Zealand in the Sheepmeat and Goatmeat Sector	1980
Extract from United Kingdom Accession Documents Relating to Butter and Cheese from New Zealand	1973

Source: Europa (2004), *Europa – Trade – Trade Issues*, “Bilateral Trade Relations; New Zealand”, available on the world wide web at <http://europa.eu.int>, accessed on 11/04/2005, and The European Commissions Delegation to New Zealand, “The European Union and New Zealand”, available on the world wide web at <http://www.delaus.cec.eu.int>, accessed on 11/04/2005.

Some of these agreements and arrangements are more important than others in facilitating the relationship. The *Joint Declaration* is the main agreement, but the *Mutual Recognition Agreement*, *Veterinary Agreement* and the *Science and Technology Arrangement* are also

important documents because they facilitate the most important areas of the bilateral relationship and are discussed here in more detail.

3.3.1 Joint Declaration

The most significant development in the New Zealand-EU relationship came in May 1999 with the signing of the *Joint Declaration on Relations between the European Union and New Zealand* in Strasbourg, which propelled the relationship into a formal framework for the first time. The declaration provides a quasi ‘road-map’ for further development of the relationship with a specific focus on areas of mutual interest. The idea of a *Joint Declaration* was first mooted in 1996 by New Zealand’s Minister of Foreign Affairs and Trade, Rt Hon Don McKinnon, following a perceived need to establish a framework to formalise the various consultation arrangements that were already in place. In 1998, New Zealand outlined its preference for a legally non-binding, albeit comprehensive, document to signify the deepening relationship and set a clear path forward. As such, the *Joint Declaration* between the two partners was signed, which formalised the relationship and provided direction for its continual development into the twenty-first Century.

The *Joint Declaration* creates a mechanism for regular consultations at a Ministerial level between the New Zealand government and the EU Commission. Its objective is to develop the economic, political and social relationship through a formal framework of regular meetings at the highest level, which allows officials from both sides to openly discuss specific foreign and domestic policies as they become relevant to the relationship. It identifies a range of common economic, political and security goals and internationalises the relationship in order to achieve these objectives by encouraging cooperation within the World Trade Organisation (WTO) and United Nations (UN). The most important

economic goal identified emphasises the importance, both for New Zealand and the EU, of increasingly establishing a prosperous global economy through the multilateral trading system. Common political goals include disarmament, non-proliferation of weapons, development issues in the Pacific, sustainable development, the protection of the global environment and the promotion of greater global cultural harmony. The *Joint Declaration* endorsing the moral ideals of human rights, fundamental freedoms, civil liberties, democracy and a mutual commitment to peace activities, as paramount to implementing their common objectives.

The importance placed on multilateral institutions arises as the objectives are far more universal than being solely concerned with the bilateral relationship. Instead, these issues touch on topics of importance to the wider international community and require greater global participation for their successful realisation. As such the partners have indicated a strong commitment for supporting the maintenance and strengthening of multilateral institutions. Maintaining the reputation and international standing of these institutions, particularly the WTO and the UN, is paramount for both New Zealand and the EU in achieving the objectives of the bilateral relationship and also for accomplishing their wider foreign policy objectives in the international community.

Many of the economic goals outlined in the Declaration are universally appealing, therefore requiring the proficient employment of multilateral institutions for their ongoing promotion. The WTO is the single most important institution both parties are committed to promoting in terms of achieving the common economic goals. It outlines a commitment to promoting free market trade principles for trade of goods, services and investment. The WTO gains special mention as an institution to jointly promote trade liberalisation by

promoting multilateral trade negotiations. Indicating the relationship is focused on working together in the international community for the promotion of its common economic goals, rather than on a bilateral basis for achieving individual benefits. The *Joint Declaration* also outlines the rejection of protectionist trade policies as an area of common interest to further strengthening the relationship, which is a contradictory point considering the EU's Common Agricultural Policy (CAP) that forms a trade barrier for New Zealand exporters.

The *Joint Declaration* provides a framework upon which the EU can participate with New Zealand in its wider Common Foreign and Security Policy when common interests unite. In terms of political and security co-operation, the declaration is solely focused on mutual co-operation in the Asia-Pacific region particularly from a developmental perspective. The Declaration does not identify any specific areas of political consultation outside of the Pacific agenda. Although not restricting political dialogue to the Pacific, as it identifies more generic areas of mutual interest such as promoting the role of the UN, facilitating cultural, scientific and educational links and cooperation on environmental issues, but the Pacific does form the central focus of non-economic discussion.

The Declaration is notable for its joint efforts in the Pacific to enhance political and security co-operation between New Zealand and the EU in order to promote stability and prosperity throughout the region. Both New Zealand and the EU have historical and contemporary interests throughout the Pacific region, which stem from European colonialism and New Zealand's geographic location in the South Pacific. New Zealand also shares many other common elements with the micro island states including cultural similarities, demographic likeness and geographic proximity. Development and disaster

aid form the basis of contemporary dialogue concerning the Pacific. The European Union's Cotonou Agreement ties Europe to the Pacific as one of three important regions the EU is focused on in terms of development. New Zealand and the EU are committed to working closely and consulting regularly with regards to promoting peace, stability and prosperity throughout the Asia-Pacific region. The Declaration makes particular mention of achieving these established goals by making sustainable development practices a priority in their respective developmental policies.

3.3.2 Mutual Recognition Agreement on Standards and Certification

The *Mutual Recognition Agreement on Standards and Certification (MRA)* is an agreement that facilitates trade in industrial goods between New Zealand and the EU. The MRA signed with New Zealand and Australia were the first agreements of their kind to be concluded and become operational by the EU.⁴ Its purpose is to reduce technical barriers and assessment procedures for exporters of industrial commodities. The exportation of industrial goods requires a large amount of bureaucratic procedures, including testing, inspection and certification of exported products, which can delay products entry to the market. The MRA facilitates industrial trade by allowing the conformity assessments to take place in the exporting country rather than being carried out at the country of destination and maintains the independence of each partners' importation standards as it does not require harmonisation of technical regulations.⁵ New Zealand exporters must meet the requirements established in the relevant EU Directives and receive their approval marking prior to export. Likewise, European exports to New Zealand receive their

⁴ Delegation of European Commission to Australia, (December 2004), The European Union and Australia; EU Agreements with Australia, available in the world wide web at <http://www.delaus.cec.eu.int>, accessed on 13/05/2005.

⁵ Delegation of the European Commission to Australia and New Zealand, (May 2003), The European Union in Partnership with Australia and New Zealand, "Economic and Trade Relationship/Mutual Recognition Agreements", European Union.

compliance certification before leaving European shores. This enhances the trading relationship because once products arrive at their destination they are not held up by bureaucracy and are free of delays from intervening authorities.

Because there is a significant differentiation of commodities traded between New Zealand and Europe, the MRA largely covers goods exported from Europe to New Zealand. The Agreement covers about one-third of all European merchandise trade to New Zealand, as the majority of EU exports to New Zealand are of an industrial nature.⁶ In contrast, the overwhelming majority of New Zealand commodities exported to Europe are agricultural products, therefore are not covered by the MRA.

3.3.3 Veterinary Agreement

The *Veterinary Agreement* was signed in December 1997, but was only implemented in early 2003 after agreement was reached on various technicalities.⁷ It is a treaty level agreement, which unlike the *Joint Declaration*, gives it a formal legal status that can be enforced through the judicial system. The objective of the agreement is to facilitate trade in live animals and animal products and aims to improve communication and co-operation on sanitary measures. Its purpose is to safeguard public health and animal welfare by introducing a range of regulatory measures, which require certain agreed standards to be upheld.⁸ The agreement is more relevant to New Zealand exporters than their European counterparts as the overwhelming majority of New Zealand exports to the EU are of an agricultural nature.

⁶ Europa, (2004), *Europa – Trade – Trade Issues*, “Bilateral Trade Relations; New Zealand”, available on the world wide web at <http://europa.eu.int>, accessed on 11/04/2005.

⁷ Ibid.

⁸ Agreement between the European Community and New Zealand on sanitary measures applicable to trade in live animals and animal products, Article One, “Objective” *Official Journal* L 057 , 26/02/1997 pp. 0005 – 0059.

It establishes minimum standards to prevent the exportation of disease that could cause havoc to the agriculture sectors of either New Zealand or Europe. The trade in animals contains the risk that unwanted disease may enter a previously unaffected region, which is potentially harmful to trade relations. Border controls are particularly important to New Zealand as an island nation with no land borders and an economy dependent on agriculture trade. Protecting against the arrival of unwanted disease is vital to economic stability because an outbreak can harm the perceived quality of agricultural exports, potentially ruining the agricultural sector. When unwanted disease does infiltrate any given territory it is usually a result of infrastructure failure and weak border controls. The *Veterinary Agreement* provides a risk management tool to minimise the risk of such events by emphasising the importance of maintaining the quality of the veterinary infrastructure for the surveillance and detection of disease. The agreement places the duty of care on the exporting country to ensure the standard of the veterinary infrastructure, disease risk management controls, disease detection, and certification procedures are of an acceptable standard.⁹

The agreement remains loyal to both parties commitment to the multilateral system in that it contains a special clause outlining the obligations of both New Zealand and the EU to the WTO are paramount and should be considered ahead of the agreement.¹⁰ This stipulation remains consistent with the principles established in the *Joint Declaration*, emphasising the support of multilateral institutions, particularly the WTO and UN. It is also consistent with the small state framework because small states lend great support to

⁹ Ibid, Annex IV, “Regionalisation and Zoning.”

¹⁰ Ibid, Article Three, “Multilateral Obligations.”

the multilateral system as it allows them an equal opportunity to be heard by many partners, thereby providing an arena for the effective utilisation of sparse resources.

3.3.4 Science and Technology Cooperation Arrangement

In 1991 the *Cooperation Arrangement for Science and Technology* entered into force to facilitate cooperation between New Zealand and the EU in fields of science and technology through the exchange of information, research results, expert exchanges, and laboratory visits.¹¹ The arrangement is focused on, although not limited to, exchanges in the sectors of agriculture, biotechnology, environment, forestry, renewable energies, telecommunications and information technology.¹² It is administered by the New Zealand Ministry of Research, Science and Technology (MoRST) and the European Commission's Directorate-General for Research and Technical Development (DGRTD).¹³

This is an important arrangement for New Zealand as the EU is a major source of global research and provides significant funding opportunities for research and development through the Commission's DGRTD. A 2002 survey found that nearly thirty percent of New Zealand researchers had a current collaboration with a British college, fourteen percent had a German collaboration and seven percent a French collaboration.¹⁴ Western Europe is the source of nearly fifty percent of non-military global research, with EU member states investing in excess of \$800 billion per annum. The DGRTD 6th Framework

¹¹ Europa, (2004), Europa – Trade – Trade Issues, “Bilateral Trade Relations; New Zealand”, available on the world wide web at <http://europa.eu.int>, accessed on 11/04/2005.

¹² Arrangement between the Commission of the European Communities and the Government of New Zealand for Cooperation in Science and Technology, (1991).

¹³ New Zealand Ministry of Research, Science and Technology, Global Relationships; New Zealand-European Union links, available on the world wide web at <http://morst.govt.nz>, accessed on 08/12/2005.

¹⁴ CoLab International, (2005), New Zealand-EU, available on the world wide web at <http://colab.rsnz.org>, accessed on 20/12/2005.

Programme (FP6) budget (2002-2006) is \$37 billion and the projected budget for the 7th Framework Programme (FP7) commencing in 2007 is estimated at \$20 billion.¹⁵

The *Arrangement for Science and Technology* has been criticised in the past as being heavily underutilised and failing to provide closer linkages in scientific research that the arrangement intended to achieve. Nevertheless, it is considered an important framework for enhancing future cooperation and has recently begun to receive greater impetus.¹⁶ Throughout 2005 and 2006 European representative's visited New Zealand and have worked closely with MoRST to identify opportunities for scientific research partnership and cooperation. In addition, New Zealand has sent a number of delegations of leading scientific personnel to Brussels in order to seek venues to exploit the DGRTD Framework Programmes budget. The partners are currently developing a forum which New Zealand and the EU can use to enhance present research linkages and support mechanisms.¹⁷

3.4 BILATERAL DIALOGUE AND DIPLOMATIC REPRESENTATION

Political dialogue between New Zealand and the European Union has evolved slowly since it was first established in the early 1960's. New Zealand originally established political relations with the European Community in 1961 when it accredited an Ambassador to the European Commission in Brussels which, for the first time, created an official line of communication between the two international actors. It was not until 1975 that the two partners realised the importance of regular, informal and flexible meetings to further developing the relationship. It was at this point such regular meetings were first initiated

¹⁵ New Zealand Ministry of Research, Science and Technology, Global Relationships: New Zealand-European Union links, available on the world wide web at <http://morst.govt.nz>, accessed on 08/12/2005.

¹⁶ CoLab International, (2005), New Zealand-EU, available on the world wide web at <http://colab.rsnz.org>, accessed on 20/12/2005.

¹⁷ New Zealand Ministry of Research, Science and Technology, Global Relationships: New Zealand-European Union links, available on the world wide web at <http://morst.govt.nz>, accessed on 08/12/2005.

to discuss the state of the relationship and international matters of mutual interest. These developments resulted in the European Commission's Delegation to Australia being cross-accredited to New Zealand in 1984. The delegation fulfils a role likened to that of an Embassy of a nation-state by facilitating the operation and development of bilateral cooperation, particularly on political and economic issues.¹⁸ In 2004 the European Commission established a post in New Zealand and opened the European Delegation in Wellington in recognition of the maturity reached in the New Zealand-EU relationship and the importance of close mutual dialogue cooperation for both partners.

The *Joint Declaration* outlines the mechanism for realising the desired cooperation. It establishes that regular political dialogue is necessary to achieve this, which will include consultations at Ministerial level between the two partners. It outlines that New Zealand government officials will be briefed on all relevant areas of the relationship by European officials, particularly in regard to the EU's Common Foreign and Security Policy (CFSP). In return, the New Zealand government will brief the European Union Presidency and the European Commission on New Zealand's foreign policy as it is relevant to the relationship, but particularly on issues and developments in the Asia-Pacific region.

3.4.1 Consultation between the New Zealand Government and EU Commission

A stocktake of bilateral visits by key Ministers and Commissioners since the signing of the *Joint Declaration* reveals a significant deficit of EU Commissioners visiting New Zealand compared to the often frequent visits of New Zealand government Ministers to Brussels. This demonstrates the importance New Zealand places on the relationship with the European Union, but also demonstrates that as a small state it struggles to gain the

¹⁸ The European Commission's Delegation to New Zealand, *The European Union and New Zealand: EU/New Zealand Political Relations*, available on the World Wide Web at http://www.delaus.cec.eu.int/newzealand/EU_NZ_relations/politicalrelations.htm, accessed 26/02/2005.

attention of its significantly larger partner. Tables 3.02 and 3.03 summarise the recent visits of Ministers and Commissioners between New Zealand and the EU.

Table 3.02

New Zealand Ministerial Visits to the European Union Since the Joint Declaration		
Minister of Foreign Affairs	Rt. Hon Winston Peters	December 2005
Prime Minister	Rt. Hon Helen Clark	November 2005
Prime Minister	Rt. Hon Helen Clark	April 2005*
Minister of Foreign Affairs and Trade	Hon Phil Goff	February 2005
Prime Minister	Rt. Hon Helen Clark	October 2004*
Minister of Foreign Affairs and Trade	Hon Phil Goff	September 2004
Prime Minister	Rt. Hon Helen Clark	May 2004*
Minister of Foreign Affairs and Trade	Hon Phil Goff	March 2004
Minister of Education	Hon Trevor Mallard	October 2003
Minister of Foreign Affairs and Trade	Hon Phil Goff	September 2003
Prime Minister	Rt. Hon Helen Clark	July 2003*
Minister of Research, Science and Technology	Hon Pete Hodgson	June 2003
Minister of Foreign Affairs and Trade	Hon Phil Goff	May 2003
Prime Minister	Rt. Hon Helen Clark	April 2003
Minister for Trade Negotiations	Hon Jim Sutton	April 2003*
Minister of Foreign Affairs and Trade	Hon Phil Goff	September 2002
Minister for Trade Negotiations	Hon Jim Sutton	May 2002
Prime Minister	Rt. Hon Helen Clark	February 2002*
Minister of Foreign Affairs and Trade	Hon Phil Goff	September 2001
Minister of Foreign Affairs and Trade	Hon Phil Goff	May 2001
Minister for Trade Negotiations	Hon Jim Sutton	May 2001
Minister or Trade Negotiations	Hon Jim Sutton	June 2000
Minister of Foreign Affairs and Trade	Hon Phil Goff	May 2000
Minister of Foreign Affairs and Trade	Rt. Hon Don Mckinnon	May 1999

Source: European Division, Ministry of Foreign Affairs and Trade, (April 2004), *European Union – April 2004*, available on the world wide web at <http://www.mfat.govt.nz>, accessed 26/08/2004 and <http://www.beehive.govt.nz>

Note

* Indicates purpose of trip was as a state visit or to attend an NGO event, not specific to the European Commission, although European leaders were in attendance for informal dialogue.

Table 3.03

European Union Visits to New Zealand Since the Joint Declaration		
Commissioner for Development	Poul Nielson	January/February 2004
Commissioner for External Relations	Chris Patten	April 2003
European Parliamentarians		February 2003
Commissioner for Development	Poul Nielson	October 2002
Commissioner for Trade	Pascal Lamy	July 2002
Head of Dairy Unit, Director-General of Agriculture, European Commission	Herman Versteijlen	February 2002
Director-General of Agriculture, European Commission	Jose Silva Rodriguez	December 2001
Director-General Trade, European Commission	Robert Madelin	March 2001
Deputy Director-General Agriculture, European Commission	Mary Minch	February 2001
European Parliamentarians		March 2000

Source: European Division, Ministry of Foreign Affairs and Trade, (April 2004), European Union – April 2004, available on the world wide web at <http://www.mfat.govt.nz>, accessed 26/08/2004

As a small state, guaranteed dialogue at regular intervals with a larger international actor such as the EU provides New Zealand with a unique diplomatic tool to exercise its foreign policy objectives in the international arena. Because the diplomatic resources available to small states and their influence in the international community are limited, they often struggle to gain the attention of larger international actors. The opportunity for a New Zealand official to have access to numerous EU Commissioners and individual state Ministers during a single visit presents a significant advantage for New Zealand to exercise an efficient use of its limited resources. The opportunity to interact with the European officials keeps New Zealand on the radar screens of the EU regarding trade issues and events in the international community. During the first 2004 consultations Goff made reference to this stating that “visiting a number of European countries during one visit offers an opportunity to remind a variety of key decision-makers of New Zealand’s

contribution to security and stability in the Pacific region, and to focus attention on issues of importance to the wider Pacific region.”¹⁹

3.4.2 Nature of the Consultation Agenda

The New Zealand Labour party has dominated the executive since the signing of the *Joint Declaration*, therefore the relationship has been exercised through a few government personalities. Those that exercise the relationship on behalf of the New Zealand government include Prime Minister Helen Clark, former Minister of Foreign Affairs and Trade Phil Goff and Minister of Trade Negotiations Jim Sutton. Because the New Zealand government’s management of the relationship is very elitist, being dominated by senior government Ministers, lends weight to New Zealand’s credibility when meeting EU officials by demonstrating the importance of a close relationship with the EU at the highest level.

The stocktake of high level visits of New Zealand Ministers to the EU, and EU Commissioners to New Zealand, reveals the relationship is discussed at the highest levels and with a definite trade perspective. Many of the Commissioners and state Ministers that New Zealand delegations meet with are responsible for trade and agriculture within the EU or individual member states. Dialogue during consultations and other formal visits is therefore dominated by discussion of trade and agriculture issues.

New Zealand’s Prime Minister Helen Clark has visited Europe on numerous occasions during her tenure as New Zealand’s leader. Most recently to Brussels in November 2005,

¹⁹ Press Release, Hon Phil Goff, (26/03/2004), Goff to Europe, United States, available on the world wide web at <http://www.beehive.govt.nz>, accessed on 18/05/2005.

two and a half years since her previous visit, which gave her an opportunity to meet and discuss with EU commissioners, many of whom were appointed to their positions since the last visit. During the two day visit the Prime Minister met with Belgium Prime Minister Verhofstadt, EU Commission President José Manuel Barroso, EU High Representative for European Security and Defence Policy Javier Solana and NATO Secretary General de Hoop Scheffer. In addition to these high level meetings Helen Clark also met with many Commissioners that are of specific importance to New Zealand including the Commissioners for External Relations, Trade, Agriculture, EU enlargement, and the President and Members of the European Parliament.²⁰ In April 2004, the prime minister visited Germany to promote New Zealand's art and cultural links by unveiling a sculpture from a New Zealand artist at the Berlin Zoo.²¹ The Prime Minister also visited Poland, the most important new member of the EU for New Zealand, where her purpose was to open a new Embassy and to meet with Poland's President Góliszewski²² and Prime Minister Marek Belka.²³

Previous trip's to Brussels in April 2003 also allowed the Prime Minister access to some of the EU's highest ranking officials. In Brussels she met with then Commission President Romano Prodi and Vice President Neil Kinnock, Trade Commissioner Pascal Lamy, Agriculture Commissioner Franz Fischler and EU High Representative for the Common Foreign and Security Policy Javier Solana as well as Members of the European Parliament. These meetings followed the Prime Ministers earlier meeting with EU External Relations Commissioner Chris Patten in New Zealand. Additionally meetings with some of

²⁰ Press Release, Rt. Hon. Helen Clark, (14/11/2005), PM to CHOGM in Malta, and EU in Brussels, available on the world wide web at <http://www.beehive.govt.nz>, accessed on 14/12/2005.

²¹ Press Release, Rt. Hon. Helen Clark, (28/04/2005), Unveiling of 'Kiwi' Sculpture at Berlin Zoo, available on the world wide web at <http://www.beehive.govt.nz>, accessed on 13/10/2005.

²² Ibid.

²³ Press Release, Rt. Hon. Helen Clark, (21/04/2005), Address at State Luncheon in Poland, available on the world wide web at <http://www.beehive.govt.nz>, accessed on 13/10/2005.

Europe's states leaders for bilateral talks also took place, meeting Belgium's Prime Minister Guy Verhofstadt, French President Jacques Chirac and Prime Minister Jean-Pierre Raffarin and other French ministers and business leaders. In London Helen Clark met with British Prime Minister Tony Blair, cabinet ministers and Head of State, Queen Elizabeth.²⁴

In addition to the Prime Ministers dialogue with the EU, other New Zealand cabinet ministers, particularly former Minister of Foreign Affairs and Trade Phil Goff, made many visits to Europe to discuss the New Zealand-EU relationship and how it can progress. New Zealand's Foreign Minister represents New Zealand at the six-monthly consultations with the European Union Presidency. In February 2005, Hon. Phil Goff met with the newly appointed members of the European Commission in Brussels, stating the consultations provide an "invaluable opportunity to exchange views on a range of international issues and to maintain an increasingly important bilateral relationship."²⁵ Prior to this meeting Goff visited the Netherlands, France, Estonia, Latvia and Lithuania in September 2004 following the European enlargement to include the former Eastern states. He was the first New Zealand Foreign Minister to visit the Baltic States, a sign of the importance New Zealand places in raising its profile in the former Eastern European states as an important step in maintaining New Zealand's influence and voice in the EU.²⁶

This visit followed previous consultations in April 2004 when the Minister of Foreign Affairs visited Ireland, the United Kingdom, Germany and Belgium, again to meet with

²⁴ Press Release, Rt. Hon. Helen Clark, (14/04/2003), PM to Visit Europe, available on the world wide web at <http://www.beehive.govt.nz>, accessed on 13/04/2005.

²⁵ Press Release, Hon Phil Goff, (21/02/2005), Goff to Visit Europe, Asia, available on the world wide web at <http://www.beehive.govt.nz>, accessed on 17/05/2005.

²⁶ Press Release, Hon Phil Goff, (06/09/2004), Goff to Visit Europe, United Nations, available on the world wide web at <http://www.beehive.govt.nz>, accessed on 18/05/2005.

EU Commissioners and state ministers. Dialogue during these consultations focused on the eminent enlargement, the bilateral trade relationship, immigration, terrorism and keeping with diplomatic etiquette, also expressed New Zealand's condolences to Europe after the bombings in Madrid.²⁷

3.4.3 Embassy Representation

In addition to the six monthly consultations, New Zealand maintains numerous diplomatic posts throughout the European Union, including seven embassies, a number of consulates and a High Commission in London. It also maintains a fully functioning embassy in Turkey, which will add extra representation if Turkey accedes to the EU. The New Zealand embassies are cross-accredited to a further seventeen EU states within the European Union (see table 3.04). In return, the European Commission has recently opened a Delegation in Wellington, after being cross-accredited with the Canberra Delegation since 1984. Eleven European states (including the Delegation of the European Union's Commission and the Embassy of Turkey) maintain resident embassies in New Zealand. A further fifteen have cross-accredited their representatives in Australia to cover New Zealand, as have EU candidate countries Croatia and Romania (see table 3.05).

²⁷ Press Release, Hon Phil Goff, (26/03/2004), Goff to Europe, United States, available on the world wide web at <http://www.beehive.govt.nz>, accessed on 18/05/2005.

Table 3.04

New Zealand Embassies in the European Union Member States and their Cross-Accreditations		
Embassy	Location	Cross-Accreditation
NZ Embassy Ankara	Turkey	
NZ Embassy Brussels	Belgium	European Union Luxembourg
NZ Embassy Berlin	Germany	Austria
		Czech Republic Hungary Slovakia Switzerland
NZ High Commission London	Britain	Ireland
NZ Embassy Madrid	Spain	
NZ Embassy Paris	France	OECD
NZ Embassy Rome	Italy	Cyprus Greece Malta Portugal Slovenia
NZ Embassy The Hague	The Netherlands	Denmark Estonia Finland Latvia Lithuania Sweden
NZ Embassy Warsaw	Poland	

Source: New Zealand Ministry of Foreign Affairs and Trade, 2005

Table 3.05

European Union Embassies Located and Cross-Accredited to New Zealand		
Embassy	Resident	Cross Accredited
Austria	Canberra	Australia
Belgium	Canberra	Australia
Britain	Wellington, New Zealand	
Croatia	Canberra	Australia
Cyprus	Canberra	Australia
Czech Republic	Canberra	Australia
Denmark	Singapore	Singapore
European Union	Wellington, New Zealand	
Finland	Canberra	Australia
France	Wellington, New Zealand	
Germany	Wellington, New Zealand	
Greece	Wellington, New Zealand	
Hungary	Canberra	Australia
Ireland	Canberra	Australia
Italy	Wellington, New Zealand	
Latvia	Melbourne	Australia
Lithuania	Auckland, New Zealand	
Malta	Canberra	Australia
Monaco	Wellington, New Zealand	
Netherlands	Wellington, New Zealand	
Poland	Wellington, New Zealand	
Portugal	Canberra	Australia
Romania	Canberra	Australia
Slovak Republic	Canberra	Australia
Slovenia	Canberra	Australia
Spain	Canberra	Australia
Sweden	Canberra	Australia
Turkey	Wellington, New Zealand	

Source: New Zealand Ministry of Foreign Affairs and Trade, 2005

These embassies play an important role in facilitating the working relationship between New Zealand and the EU, and the individual member-states of the EU. More importantly, they complete the important role of raising New Zealand's profile in Europe, especially forming bilateral relationships with individual member-states. Embassies which are focused on bilateral relations with nation-states have a positive spill-over effect with relations with the EU, as officials representing the member-states in Brussels will be familiar with New Zealand from interaction and cooperation at the nation-state level. As a

small state, with strictly limited diplomatic resources, it is essential that New Zealand approach bureaucratic and diplomatic officials through all available channels to have New Zealand's interests registered in the policy-making process of the EU.

3.5 STRENGTHENING OF THE INSTITUTIONAL RELATIONSHIP

The relationship is confronted with a number of structural challenges that are discussed in this section. Firstly, the weak or limiting nature of the existing frameworks have been criticised and could be replaced or strengthened. Secondly, as a small state, New Zealand's representation in Europe is light, with a heavy reliance on cross-accreditations. This affects New Zealand's ability to establish a profile within the EU and establish networks, particularly since the accession of the former Eastern states.

The formal agreements that facilitate the relationship are few and often limited in what they deliver. New Zealand has always had a tendency to enter into agreements 'for the sake of it', while diplomats strongly push New Zealand's interests, the agreements often fail to cover many of the important areas of the relationship.²⁸ As the relationship is very much developing, both as New Zealand emphasises the relationship and pushes for closer formal relations, and the deepening and changing integration process of the EU new cooperation areas are created. The New Zealand government acknowledges the limited scope of the existing agreements, but believes that rather than a radical change in the agreements, it could simply get more out of the agreements it does have.²⁹ Improvement of the structural framework facilitating the bilateral relationship will enhance cooperation in a range of areas, notably the growing trade in services, environmental cooperation and

²⁸ Rt. Hon Helen Clark, (20 November 2002), "New Zealand's Relationship with Europe; the planned enlargement of the European Union", Annual Europa Lecture to the National Centre for Research on Europe, University of Canterbury.

²⁹ Ibid.

health.

It is essential New Zealand maintains a visible presence in the EU so that it is not overlooked by EU decision-makers on issues of importance to New Zealand. This task became considerably more difficult with the 2004 enlargement that poses real risks that New Zealand's relevance may diminish to many EU official's. McMillan raises this risk, suggesting enlargement may result in New Zealand diminishing in importance "to the point that thinking about New Zealand will just not occur to many EU officials and politicians."³⁰ A more potent risk of enlargement is the fact many official forming the bureaucracy of the EU will originate from the accession countries, taking up positions in institutions such as the Commission and Parliament, some of whom will be making decisions impacting on New Zealand.³¹ The New Zealand government and people have had very limited or no contact with the former Eastern states, and as such have established very few contacts in the EU-10 states. As a result the new officials will not be thinking of New Zealand as they create policy so it is vital New Zealand raise's its profile in the new member states so it remains a consideration with EU policy makers. New Zealand's prime minister highlighted the difficulties and importance of creating such a profile in the European Union stating;

*Competition for attention from the EU these days is intense. It's not just a matter of New Zealand making its voice heard, but also of being able to influence decisions which matter to us from half a world away.*³²

³⁰ McMillan, Stuart, "Enlarging the European Union; Stuart McMillan discusses the likely impact of the projected accessions to the European Union and foresees significant challenges for New Zealand", New Zealand International Review, May-June 2003, vol. 28, iss. 3, pp 7.

³¹ Ibid.

³² Rt. Hon Helen Clark, (20 November 2002), "New Zealand's Relationship with Europe; the planned enlargement of the European Union", Annual Europa Lecture to the National Centre for Research on Europe, University of Canterbury.

The representation afforded to third countries by small states tends to be extremely limited as the cost of maintaining an embassy or consulate is extremely high. New Zealand has relied on representation that has been a bit ‘Topsy’ with multiple accreditations to less significant partner countries.³³ The significant enlargement of the European Union placed significant strain on New Zealand’s existing diplomatic representation in Europe which risked New Zealand’s interests, “The enlargement places more pressure on the diplomatic and representational resources of a small nation of only four million people living 12,000 miles away from Europe.”³⁴ To counter the threats posed by enlargement, and improve the institutional relationship, New Zealand recently opened an embassy in Poland, with the Prime Minister announcing the embassy as vital to growing New Zealand’s relationship with Poland and an “excellent base from which to raise New Zealand’s profile in Poland.”³⁵

3.6 CONCLUSION

The structural framework that facilitates the functioning of the relationship developed throughout the 1990s. The main agreement, the *Joint Declaration*, was signed in 1999 and provides the economic and political direction for future cooperation. It also established a framework for facilitating bilateral dialogue with the formal creation of Ministerial Consultations. The remainder of the agreements are mostly focused towards facilitating the economic relationship by establishing regulations for bilateral trade in agricultural and industrial goods. These institutional arrangements are an important practical aspect of the relationship. Nonetheless, the structural framework is weak in many areas because the

³³ Ibid.

³⁴ Rt. Hon Helen Clark, (24/04/2003), Address to the European Policy Centre, available on the world wide web at <http://www.beehive.govt.nz>, accessed on 29/04/2005.

³⁵ Rt. Hon Helen Clark (22/04/2005), Official Opening of New Zealand Embassy in Poland, available on the world wide web at <http://www.beehive.govt.nz>, accessed on 29/04/2005.

agreements are narrow focused and fail to provide direction in many areas of current and potential cooperation.

Visits of New Zealand Ministers and EU Commissioners are regular, although a deficit of Commissioner visits to New Zealand is an evident reality of the relationship. Many more visits of Ministers to Brussels have taken place since the signing of the *Joint Declaration* than Commissioners to Wellington. This is explained because as a small state the impetus is on New Zealand's to maintain the attention of the much larger EU. Failing to do so will reduce New Zealand's relevance to the EU, especially with enlargement introducing the aspect of many new officials from Eastern states without any previous connection to New Zealand. As a small state, New Zealand's limited resources restrict its diplomatic representation, preventing it from establishing a widespread embassy network. To counter this New Zealand is reliant on a high number of cross-accreditation's throughout the EU to maintain its presence with embassies strategically placed in key member states. The opening of an embassy in Poland maintained New Zealand's proportional representation as European enlargement incorporated ten new member states. This is revealing of the strategic positioning of New Zealand embassies in the EU as Poland was the most important of the new member states for New Zealand's economic relationship.

CHAPTER FOUR

New Zealand-EU Economic Relations

4.1 INTRODUCTION

This chapter investigates the economic relationship between New Zealand and the European Union (EU). As a small state, economic issues dominate New Zealand's relationship with the EU. For a small state the opportunity to trade with a larger trading partner presents enormous opportunities and challenges. The EU offers a large, stable, and important, market for New Zealand's key agricultural exports. New Zealand is also an important economic partner for the EU, primarily supplying cheap, high quality food and other agricultural products. In addition, although New Zealand provides only a small market for EU exports, it does offer the EU another global trading partner since Britain joined the European Economic Community in 1973.

The contemporary economic partnership is founded on strong historical ties New Zealand established with Britain after colonialism in the nineteenth century. Although these links have weakened with Britain since the 1950's, they have grown with other EU countries. Indeed, as a single entity, the EU is New Zealand's second largest merchandise trading partner, after Australia, providing a vital market for New Zealand's agricultural exporters. Trade in services and foreign investment between New Zealand and the EU are also very important and strongly developing sectors.

Small state theory argues a small state will display particular foreign policy behaviour in its economic relations with other states. This chapter firstly discusses this framework, to

outline the various economic characteristics expected of a small state, thereby determining whether New Zealand's economic relationship with the EU can be explained by small state theory. The economic policy of small states, it is claimed, varies according to the ideology of the governing party at any given period. The chapter then provides an in-depth discourse of trade relations that dominate the economic partnership. The combination of two important components, imports and exports, delivers the total value of a trading relationship. These two components are further dissected into three distinct categories that form the basis of the trading relationship; merchandise trade, service trade and foreign investment. These individual components of the economic relationship are discussed in detail and will reveal the current state of the bilateral relationship by analysing each category in isolation. An assessment of the trade relationship will demonstrate the significant role economics plays in the overall EU/New Zealand bilateral relationship, showing New Zealand does act like a small state in its economic relationship with the EU.

4.2 SMALL STATE THEORY AND NEW ZEALAND TRADE WITH THE EUROPEAN UNION

4.2.1 Economic Focus

One of the major characteristics displayed by a small state is that its foreign policy behaviour has an economic focus. Small nations tend to be trading nations that concentrate their exports to a restricted range of commodities and overseas markets. This leaves their economies vulnerable to fluctuations in the world economy.¹ The priority given to economic issues from small states in their foreign policy is a result of the requirement to attain sufficient levels of economic prosperity to cater for their domestic needs.² These domestic needs are met, through trade, by successfully participating in the

¹ Henderson, J, (1991), "New Zealand and the Foreign Policy of Small States", pp 9, in Henderson and Kennaway, Beyond New Zealand II: Foreign Policy into the 1990's, New Zealand, Longman Paul.

² Ibid.

international market place. The economic focus of small states foreign policy is therefore a result of governments actively seeking to expand existing markets and develop new markets in order to meet the nations' domestic needs.

New Zealand is no exception to this rule. It cannot escape the reality that it must trade with other nations in order maintain its standard of living. Its small size means it is limited in resources and population so its economy is relatively undiversified. The bulk of its trade is focused on the agriculture sector and exporting agricultural commodities to other parts of the world. This makes the New Zealand economy vulnerable to fluctuations in the international economy, particularly the agriculture sector. Its national income is reliant on maintaining world prices of agricultural foodstuffs. Volatile prices for these commodities will produce large variations in export returns and can have huge shocks to the national economy which often results in a continual balance of payments deficit.³

4.2.2 Trade Ministries Superiority

Maurice East suggests the foreign ministry of small states is likely to play a less prominent role in foreign affairs and be given secondary consideration to the position or advice offered by ministries responsible for economic issues because of the importance small states place on economic and trade issues.⁴ New Zealand has reduced the situation of ministries competing for foreign policy influence by merging foreign affairs and trade into one ministry known as *Ministry of Foreign Affairs and Trade (MFAT)*. New Zealand Trade and Enterprise, a subsidiary of the Ministry for Economic Development, has the main role for assisting exporters, while the Ministry of Foreign Affairs and Trade and the

³ NZ Institute of Economic Research, and, NZ Trade Consortium, (1999), pp 3, New Zealand's Trade Policy Experience and the Millennium Round, New Zealand Trade Consortium Working Paper No. 5.

⁴ East, Maurice, (1978), pp 137, "National Attributes and Foreign Policy", in East, Salmore and Hermann, Why Nations Act, London, Sage Publications.

Minister for Trade Negotiations deal with bilateral and multilateral trade negotiations. These arrangements allow for a specialist government department of trade, but there is no department solely for foreign affairs. There is also some competition from other peripheral ministries which have influence on New Zealand's foreign affairs such as Defence and the Trade Negotiations.⁵

The adoption of a system whereby foreign affairs and trade have been merged into one ministry has allowed for a concentration of an all-encompassing trade and foreign policy into one department to deal with the state's economic interests and the political issues that arise from them. Small state theory dictates that due to their low capacity to act, economic matters tend to comprise a higher proportion of activity in the foreign affairs sector in order to achieve the maximum economic growth potential.⁶ In the case of New Zealand, trade policy is foreign policy by another means. New Zealand has gained an advantage in trade negotiations by leading the world in de-regulating its economy and scrapping farm subsidies, earning an honest reputation that has carried over into its foreign policy interactions.⁷

4.2.3 Political Ideology and Personalities

The influence of political parties must not be overlooked when discussing the role of economics in a small state's foreign policy behaviour. McCraw asserts the role of economics in determining New Zealand's foreign policy varies depending whether

⁵ It is acknowledged that following the 2005 General Election the established foreign affairs framework has been controversially altered by introducing separate foreign and trade Minister in order to satisfy coalition negotiations. In addition the previous Minister of Foreign Affairs and Trade, Hon Phil Goff, remains influential in foreign affairs as Minister for Trade Negotiations.

⁶ East, Maurice, (1978), pp 139, "National Attributes and Foreign Policy", in East, Salmore and Hermann, *Why Nations Act*, London, Sage Publications.

⁷ Ricketts, Rita, "Small Can Be Smart", *New Zealand International Review*, vol 29, no 3, May-June 2004, pp 15.

National or Labour is in government.⁸ The differing policy objectives and party ideology of each political party influence's the level of importance the government will place on economics in asserting a foreign policy. National governments tend to place greater importance on economics in their foreign policy, while Labour government's are more inclined exercise a foreign policy from a wider perspective than solely achieving economic objectives.⁹ Former National party Prime Minister Sir Robert Muldoon clearly articulated his parties' economic focus of its foreign policy in 1980 by stating "Our foreign policy is trade. We are not interested in the normal foreign policy matters to any great extent. We are interested in trade..."¹⁰ Although trade remains an important consideration it does not to the extent Muldoon rated in the 1980's. O'Brien claims the Auckland APEC conference in 1999 demonstrated the common perception that trade dictates the distribution of resources to be a fallacy. New Zealand could better defend and advance its interests by investing greater resources to foreign and security policy development and implementation. Concentrating resources on furthering international trade rules at the WTO is vital, however the APEC conference demonstrated New Zealand could benefit from a greater focus on foreign affairs.¹¹

Nevertheless, economics will take precedence over other small state characteristics when confronted with an international incident. New Zealand governments have demonstrated a propensity to sacrifice moral foreign policy positions in favour of protecting the countries economic interests, particularly regarding external trade relations. This has been demonstrated by both National and Labour political parties. The banning of all vessels

⁸ McCraw, D, "New Zealand's Foreign Policy Under National and Labour Governments: Variations on the "Small State" Theme?", *Pacific Affairs*, vol 67, i 1, Spring 1994, pp 7.

⁹ Ibid.

¹⁰ Round, Derek, "Our Foreign Policy is Trade", *New Zealand International Review*, vol. 5, no. 1, January-February 1980, pp 3.

¹¹ O'Brien, Terrence, "Now out First big Summit is Over, What do we do Next?", *The New Zealand Herald*, 16 September 1999.

carrying nuclear weapons from New Zealand waters by David Lange's Labour government placed disarmament issues ahead of national economic interests.¹² National has consistently proposed the abolition of New Zealand's controversial nuclear free legislation to encourage the commencement of free trade negotiations with the United States.¹³

A more dramatic incident of the New Zealand government favouring trade over morality was witnessed with the Labour governments handling of the Rainbow Warrior Affair in 1985. The sinking of the Greenpeace vessel in New Zealand by French agents caused a serious bilateral rift between New Zealand and France. This act of state-terrorism, ordered by the French government, was received with absolute abhorrence by the New Zealand government, its people, media organisations and the wider international community. New Zealand investigators arrested two French agents, tried and convicted them of manslaughter and wilful damage and were each sentenced to a ten year term.¹⁴ The French response vehemently opposed the imprisonment of its agents and used the threat of bilateral trade sanctions and working against New Zealand's trade interests at the European Commission as tools to persuade the New Zealand government to repatriate its agents to France.¹⁵ France did obstruct access to a small volume of lamb and potatoes, but this action foreshadowed its intention to drastically reduce New Zealand's quotas of meat and dairy products in the European Community.¹⁶ New Zealand subsequently agreed, after negotiations with France, at the United Nations, to transfer the two French nationals

¹² McCraw, D, "New Zealand's Foreign Policy Under National and Labour Governments: Variations on the "Small State" Theme", *Pacific Affairs*, vol 67, i 1, Spring 1994, pp 7.

¹³ New Zealand National Party Taskforce, (May 2004), *The Relationship Between New Zealand and the United States: a Discussion Paper*, pp 53.

¹⁴ Hoadley, Stephen, (2005), pp 57-59, *New Zealand and France: politics, diplomacy and dispute management*, New Zealand Institute of International Affairs, Wellington.

¹⁵ *Ibid*, pp 60-62.

¹⁶ *Ibid*, pp 60.

to French custody with the guarantee France would not oppose entry of New Zealand imports to the European Community.¹⁷

4.3 OVERVIEW OF THE BILATERAL TRADE RELATIONSHIP

New Zealand's economy is dependent on international trade and market access with key trading partners. The European Union is New Zealand's second largest trading partner¹⁸ and provides a lucrative and stable market for New Zealand exporters. Member states of the EU accounted for one-quarter of New Zealand's top 20 export countries in 2004. The United Kingdom was the highest ranked at number five, followed by Germany ranked at number seven, Belgium at eleven, Italy fourteen and France ranked as New Zealand's seventeenth largest export market.¹⁹ Bilateral merchandise trade in 2004 was worth in excess of \$NZ 11.5 billion, with New Zealand running a twenty percent balance deficit.²⁰ The EU was the destination for two-thirds of all New Zealand produced sheepmeat, and one-third of New Zealand's butter and wool sales. The value of bilateral service trade in 2001 was worth €1.6 billion and has demonstrated a trend of rapid growth.²¹ European markets are therefore conclusively vital export markets for New Zealand exporters, and although markets in Asia, especially China, are developing at a faster pace, the European market clearly remains significant to New Zealand exporters.

¹⁷ Ibid, pp 60.

¹⁸ European Commission, "The EU's Relations with New Zealand", (15/12/2003), available on the World Wide Web: <http://europa.eu.int>, accessed on 05/08/2004.

¹⁹ Statistics New Zealand, (March 2005), "Overseas Merchandise Trade (Exports); December 2004", available on the World Wide Web at: <http://www.stats.govt.co.nz>, accessed on 15/04/2005.

²⁰ Ibid, "Overseas Merchandise Trade (Exports and Imports); December 2004."

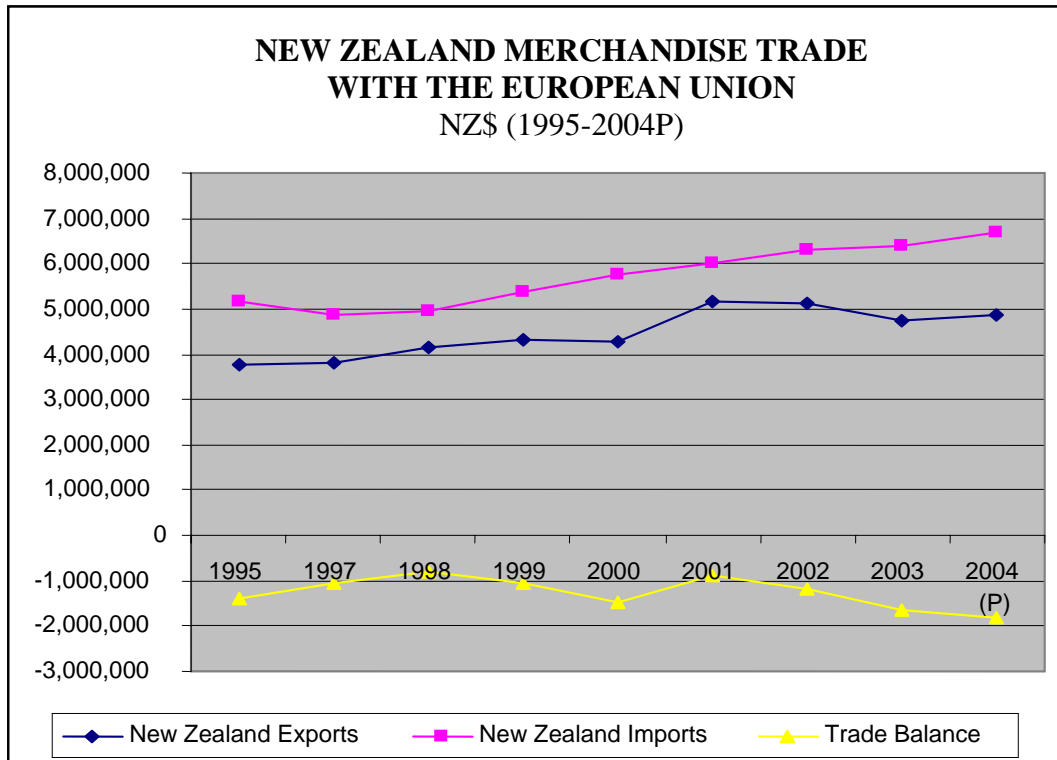
²¹ European Commission Delegation to Australia and New Zealand, (May 2003), The European Union in Partnership with Australia and New Zealand, Canberra.

4.4 BILATERAL MERCHANDISE TRADE

As New Zealand's second largest trading partner, the European Union provides a lucrative and stable market for New Zealand's merchandise exporters. Broken down, the EU is New Zealand's third largest export market and second largest merchandise trading partner. This trade produces a trade deficit because New Zealand imports more from the EU than it exports. This analysis reveals bilateral trade between the two partners with considerable growth over a relatively short period. Official sources show that since 1995 merchandise trade between the two trading partners has increased substantially, exports have grown by 51.7 percent and imports by 52.4 percent.

These actual dollar values, presented by the European Commission and New Zealand government, are somewhat misleading as they are not adjusted for inflation. These statistics are deceptive because they inflate the true growth of the trading relationship. A more accurate analysis of the trading relationship is displayed in figure 4.01, as the values have been calculated in real dollar terms (2004 values), which accounts for the effect of inflation, demonstrating the growth in trade between New Zealand and the EU is not as substantial as that often presented by official sources. Exports to the European Union have grown 20 percent less over the 1995-2004 period, at a considerably lower rate of 29 percent. Imports from the EU have similarly increased by a lesser 30 percent over the same period when calculated in real 2004 dollar figures. This shows the balance of trade during this period has increased only by 32 percent in real terms and not 54 percent as calculated by using actual dollar values.

Figure 4.01



Source: Statistics New Zealand; New Zealand External Trade Statistics; February 2005

4.4.1 Imports and Exports to the European Union

In terms of economics, the EU is much more important for New Zealand than New Zealand is for the EU. New Zealand ranks as the European Union's 45th largest country of origin for imports and the 44th largest destination for EU exports, accounting for only 0.3 percent of total EU trade. This is considerably less than other similar sized countries, such as Israel.²² But are slightly ahead of New Zealand's world ranking in terms of trade, where it accounts for a total of 0.24 percent of global trade and is ranked as the world's 52nd largest trading nation. This comparative ranking climbs to a ranking of 34th and a share of 0.3 percent if the EU is considered as a single entity rather than individual member states.²³ Comparatively, as a single entity, the EU is ranked as the world's largest

²² European Commission, Directorate-General Trade, (July 2005), "New Zealand", available on the world wide web at <http://europa.eu.int>, accessed on 18/10/2005.

²³ European Commission, "Leading Exporters and Importers of Merchandise Trade in the World (2004)", *Eurostat*, available on the world wide web at <http://www.europa.eu.int>, accessed on 05/01/2006.

trader, accounting for 18 percent of total global trade.²⁴ The EU accounts for a staggering 18 percent of New Zealand's total trade, less only to Australia which accounts for one-quarter of New Zealand's trade. Trade with the EU is over 30 percent larger than New Zealand's third largest trading partner, the United States.²⁵

There is a clear differentiation in the types of goods New Zealand imports from the EU to that it exports to the EU (see tables 4.01 and 4.02). New Zealand is heavily focused on exporting primary goods to the European Union with agricultural products accounting for a significant portion of export receipts to the EU. New Zealand's top four exports to the EU in 2004 were sheep meat (NZ\$1.45 billion), Butter (NZ\$388 million), apples (NZ\$326 million) and wool (NZ\$314 million).²⁶ In contrast, EU exports to New Zealand in the same year were primarily industrial or mechanical goods; motor vehicles were the leading import ((NZ\$616 million), medicaments (NZ\$325 million) and tractors, trucks and vans (NZ\$420 million) account for the leading imports to New Zealand from the EU.²⁷ This product differentiation of exported primary goods and the importation of industrial goods is consistent with New Zealand's other trading partners.

²⁴ Ibid.

²⁵ European Commission, Directorate-General Trade, (July 2005), "New Zealand", available on the world wide web at <http://europa.eu.int>, accessed on 18/10/2005.

²⁶ Statistics New Zealand, (February 2005), *New Zealand External Trade Statistics [provisional] June 2004*, section 5; principal markets, table 5.04 "EU-25 June 2004 Bilateral Trade with New Zealand", available on the world wide web at: <http://www.stats.govt.nz>, accessed 12/04/2005.

²⁷ Ibid.

Table 4.01

LEADING EXPORTS FROM NEW ZEALAND TO THE EUROPEAN UNION (2004) (by order of importance)			
Product	Value (€million)	Percentage (%)	Share of total EU imports
Food and live animals	1 713	61.9	3.3
Crude materials inedible, except fuels	279	10.1	0.7
Machinery and transport equipment	225	8.1	0.1
Manufactured goods chiefly by material	154	5.6	0.1
Chemicals and related products	141	5.1	0.2
Miscellaneous manufactured articles	107	3.9	0.1
Beverages and tobacco	101	3.6	1.8
Commodities and transactions	24	0.9	0.1
Animal and vegetable oils, fats and waxes	6	0.2	0.2
TOTAL	2 766	100.00	0.3

Source: European Commission, Directorate-General Trade, (July 2005), "New Zealand", available on the world wide web at <http://europa.eu.int>, accessed on 18/10/2005.

Table 4.02

LEADING IMPORTS TO NEW ZEALAND FROM THE EUROPEAN UNION (2004) (by order of importance)			
Product	Value (€ million)	Percentage (%)	Share of total EU exports
Machinery and transport equipment	1 621	53.6	0.4
Chemicals and related products	419	13.9	0.3
Manufactured goods chiefly by material	373	12.3	0.3
Miscellaneous manufactured articles	331	10.9	0.3
Food and live animals	69	2.3	0.2
Beverages and tobacco	50	1.6	0.3
Commodities and transactions	24	0.8	0.1
Crude materials inedible, except fuels	19	0.6	0.1
Animal and vegetable oils, fats and waxes	17	0.6	0.7
Mineral fuels, lubricants and related materials	3	0.1	0.0
TOTAL	3 025	100.00	0.3

Source: European Commission, Directorate-General Trade, (July 2005), "New Zealand", available on the world wide web at <http://europa.eu.int>, accessed on 18/10/2005.

New Zealand's leading exports in 2004 were primarily agricultural products, dairy and meat products were New Zealand's leading two exports to the world, and about 80 percent of New Zealand's exports to the European Union consist of agricultural products.²⁸ In absolute terms, New Zealand's agricultural exports make it a small, yet relevant, player in world agricultural trade. Contributing 3.3 percent of total EU agricultural imports, New Zealand is a relatively major player in global agricultural trade. When considered relatively with its overall economy, over 50 percent of New Zealand's exports are agricultural based, resulting in its overall insignificance and the necessity, from New Zealand's perspective, for the EU to open its agricultural markets in order to develop its own economy.²⁹

The EU is an important market for New Zealand wool exports. While it is only New Zealand's tenth largest export to the rest of the world, it was New Zealand's fourth largest export to the EU in 2004 and often occupies a top three placing with the EU. Indeed, thirty-five percent of New Zealand's wool exports went the EU,³⁰ making Europe the leading and most valuable importer of New Zealand wool. This highlights the importance of the EU market for wool exporters, a product that also contributes to New Zealand's image in the European tourism market. Wool exports to the EU are receding with a trend of negative growth beginning to emerge. Wool sales to the EU in 2004 decreased by eight percent from the previous year and were down on 2002 figures also. This emerging trend of declining wool exports to the European Union is unlikely to be an effect of enlargement

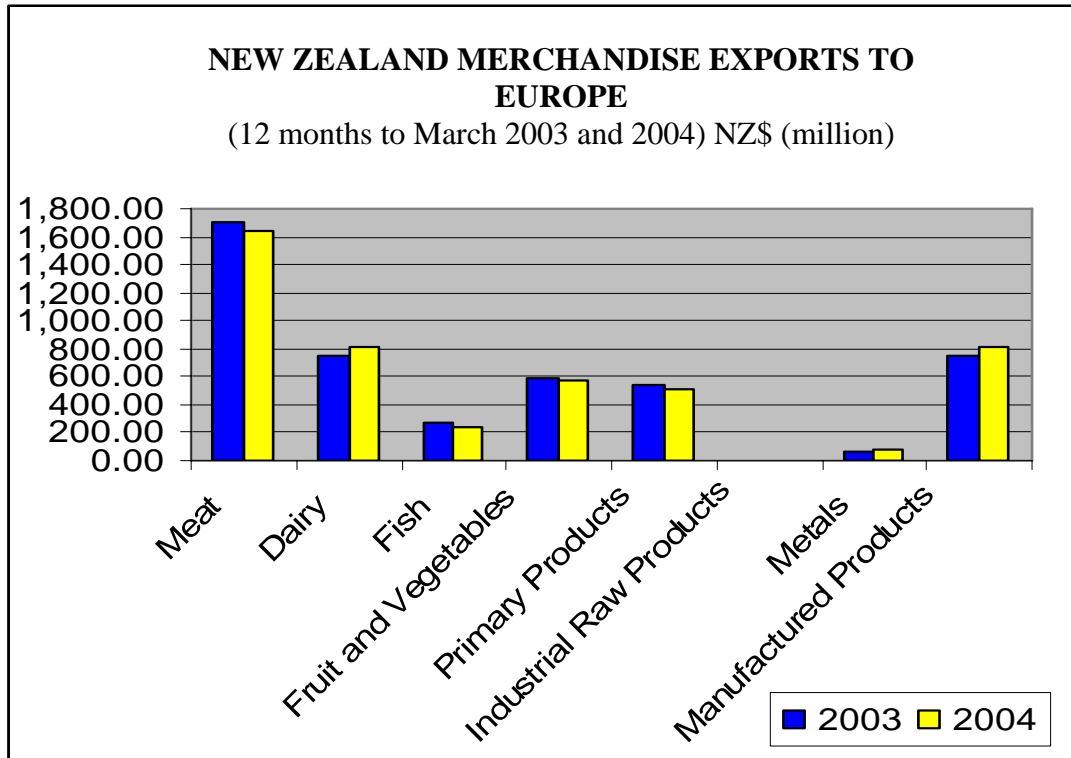
²⁸ European Commission, (March 2004), "Bilateral Trade Relations; New Zealand", Trade Issues, available on the world wide web at: <http://europa.eu.int/en.html>, accessed on 11/04/2005.

²⁹ European Commission, (December 2004), "Sectoral Issues; Trade in Agricultural Goods and Fishery Products", Trade Issues, available in the world wide web at <http://www.europa.eu.int>, accessed on 10/10/2005.

³⁰ Statistics New Zealand, (February 2005), New Zealand External Trade Statistics [provisional] June 2004, section 3; commodity trade by HS classification, table 3.01 "New Zealand; Exports by HS Chapter Heading", available on the world wide web at: <http://www.stats.govt.nz>, accessed 12/04/2005.

as the decline began before the Eastern European Countries joined the EU, and the accession countries in 2004 are not large producers of wool.

Figure 4.02



Source: New Zealand Trade and Enterprise, (December 2004), "New Zealand Total Exports to Europe", available on the world wide web at: <http://www.nzte.govt.nz>, accessed 19/05/2005.

While the United Kingdom continues as New Zealand's most significant export market in Europe, growth for New Zealand's exports can be seen in member states of wider continental Europe. Individual member states account for one-fifth of New Zealand's top twenty fastest growing export markets. Exports to Denmark for the 12 months ended March 2004 were worth a total of NZ\$ 197.5 million, an increase of 123 percent from the previous 12 months. Also in the 2004 top twenty are Ireland (NZ\$ 28.8 million, an increase of NZ\$ 4 million from the previous 12 months), Sweden (NZ\$ 45.6 million, up

NZ\$ 3.8 million), Spain (NZ\$ 171.5 million, up NZ\$ 13.2 million) and the Netherlands (NZ\$ 263.7 million, up 7.3 million).³¹

4.5 BILATERAL TRADE IN SERVICES

This section analyses bilateral trade in services between New Zealand and the European Union. An overview of world service trade demonstrates the importance of this sector to the global and domestic economies and will look at the importance of services to both New Zealand and the EU. Following this background information it will discuss the bilateral service trade between New Zealand and the EU before providing micro case-studies that analyse the economic aspect of bilateral trade in the tourism and export education sectors, which have developed into two of the largest and most important service sectors of the New Zealand economy.

4.5.1 Service Trade Overview

The structure of world trade has changed over the past few decades, with a shift away from traditional agriculture and merchandise trade to areas such high-technology and services such as tourism and education. Services are the largest and most dynamic aspect of both developed and developing countries economies.³² International trade in services for OECD countries is worth in excess of US\$2 000 billion a year and is growing at an average rate of 8 percent annually.³³ A strong infrastructure in the service sector is vital to both the EU and New Zealand as it is the most rapidly expanding economic sector

³¹ New Zealand Trade and Enterprise, (March 2004), “New Zealand’s 20 Fastest Growing Export Markets”, available on the world wide web at: <http://www.nzte.govt.nz/common/files/stats-mar04.xlz>, accessed on 19/05/2005.

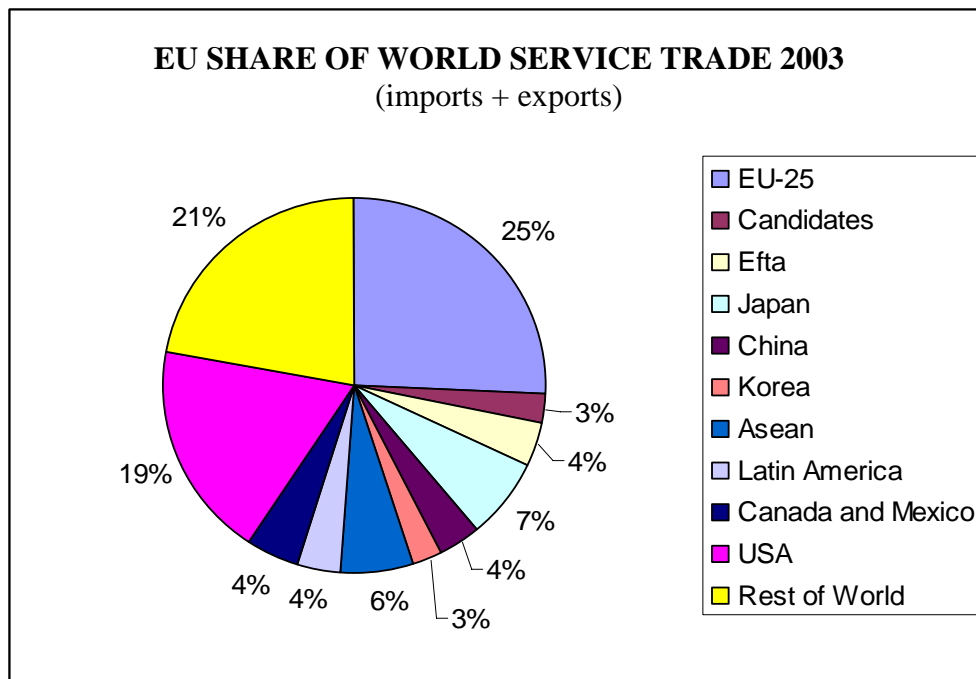
³² World Trade Organisation, Services Trade, available on the world wide web at <http://www.wto.org>, accessed on 19/05/2005.

³³ Statistics New Zealand, (November 1999), “Price Indexes for Services Exports and Imports”, Key Statistics; November 1999, available on the world wide web at: <http://www.stats.govt.co.nz>, accessed on 15/04/2005.

globally, contributing to economic growth and employment worldwide more than any other sector. Trade in merchandise cannot function efficiently without a functioning service sector as merchandise trade requires the services of banking, insurance, accountancy, telecommunications and transport system.³⁴ The service sector therefore provides the vehicle for which merchandise trade can occur.

The service sector is considered the European Union's single most important economic activity, accounting for three-quarters of its GDP and two-thirds of employment within the EU.³⁵ The EU is the world's largest service trade sector, accounting for one-quarter of total global service trade. This represents more trade than the United States and China combined, signifying the importance of services to member states in the EU.

Table 4.03



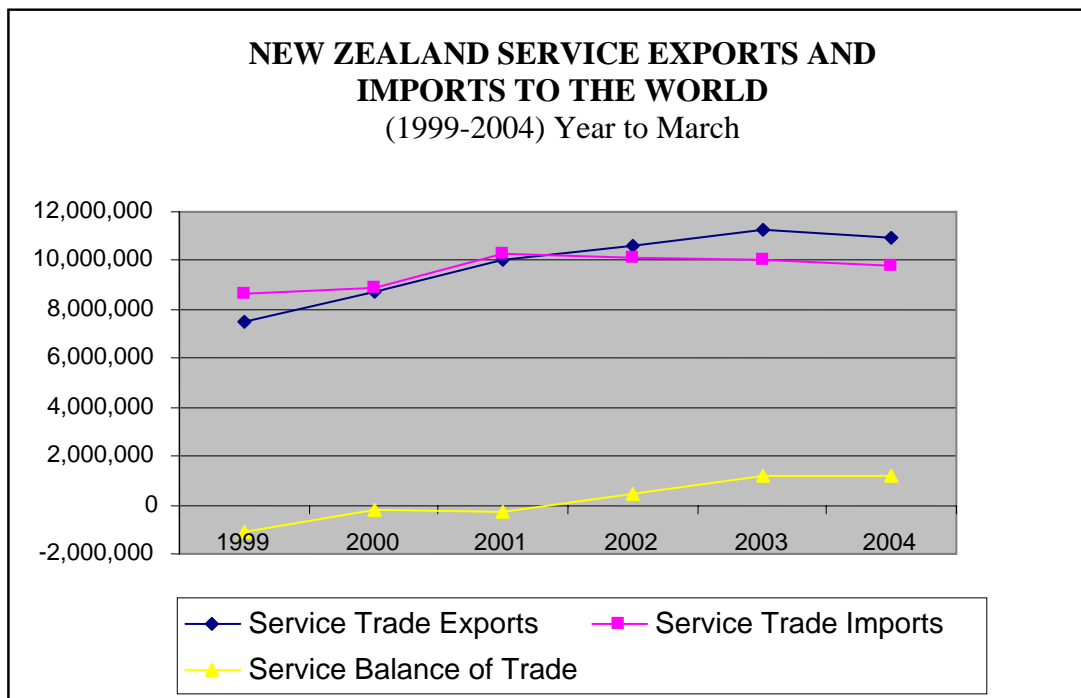
Source: European Commission Directorate-General Trade, (March 2005), available on the world wide web at <http://europa.eu.int>, accessed 18/10/2005.

³⁴ European Commission, (March 2004), "Sectoral Issues; Trade in Services", *Trade Issues*, available on the world wide web at: http://europa.eu.int/comm/trade/issues/sectoral/services/index_en.html, accessed on 11/04/2005.

³⁵ Ibid.

The service sector is vital to the New Zealand economy as it accounts for about 68 percent of its annual GDP. Service's of particular relevance to New Zealand include air and sea transportation, export education, Information Communications and Technology (ICT), telecommunications and tourism industries.³⁶ New Zealand's trade in services to the world, both imports and exports, have steadily increased over the past five years, consistent with the world service trend. Since 2002, New Zealand companies have exported more services to the world than have been imported, resulting in a positive balance of trade in the services sector.

Figure 4.04



Source: Statistics New Zealand, (February 2005), *New Zealand External Trade Statistics: June 2004*, "Section 2; Services Trade; Table 2.01-2.02", available on the world wide web at: <http://www.stats.govt.co.nz>.

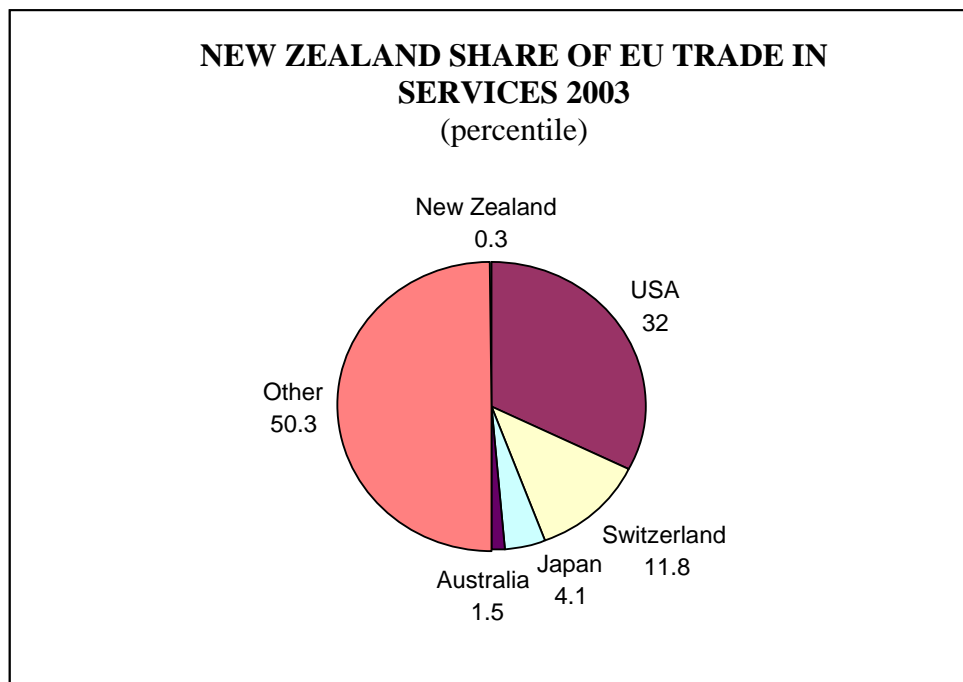
4.5.2 New Zealand/European Union Bilateral Service Trade

Trade in services provides a large portion of the overall trade between New Zealand and the EU, and it is an area of constant expansion. The European Union is one of New

³⁶ European Commission, (March 2004), "Bilateral Trade Relations; New Zealand", *Trade Issues*, available on the world wide web at: http://europa.eu.int/comm/trade/issues/bilateral/countries/newzealand/index_en.html, accessed on 11/04/2005.

Zealand's most important markets for trade in services, which makes it a vital partner for stimulating economic growth in New Zealand. Trade in services between New Zealand and the EU was worth €1 545 billion in 2001, accounting for 20 percent of total trade between the two partners.³⁷ Bilateral service trade has witnessed growth in 2002 to €1.8 billion which was maintained in 2003.³⁸ Nevertheless, New Zealand's comparative share of total EU trade in services is extremely miniscule, accounting for less than half a percent, only one-fifth the size of Australia's service trade with the EU (see table 4.05).³⁹ Indicating that many opportunities remain untapped in the service sector between New Zealand and the EU and further cooperation in this area should be explored.

Table 4.05



Source: European Commission, Directorate-General Trade, (July 2005), "New Zealand", available on the world wide web at <http://europa.eu.int>, accessed on 18/10/2005.

Much of the current service cooperation between New Zealand and the EU is exercised in the multilateral arena. The multilateral context is facilitated through the WTO, particularly

³⁷ Ibid.

³⁸ European Commission, Directorate-General Trade, (July 2005), "New Zealand", available on the world wide web at <http://europa.eu.int>, accessed on 18/10/2005.

³⁹ Ibid.

regarding the controversial General Agreement on Trade in Services (GATS). These negotiations aim to facilitate global trade in the service industry. Both New Zealand and the European Union have been active participants in these negotiations since 2000.⁴⁰ They establish a multilateral forum for facilitating service trade and provide a multilateral dimension for exercising the bilateral trading relationship concerning trade in the service sector.

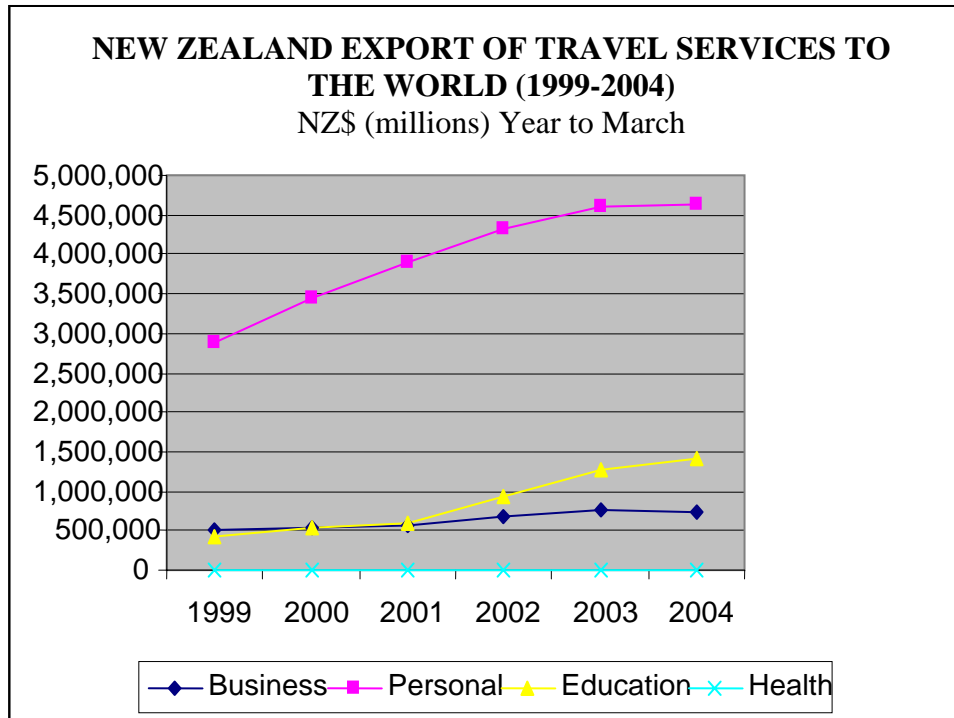
4.5.3 EU-New Zealand Travel and Tourism Micro-Case Study

Tourism is a major service sector of the New Zealand economy. It contributes significantly to the production of goods and services and creates many employment opportunities. International tourism contributed NZ\$7.4 billion to New Zealand's economy in 2003, accounting for 17.8 percent of New Zealand's total exports and paid NZ\$1.2 billion in Government Services Tax (GST). Tourism directly contributed NZ\$5.9 billion to GDP, accounting for 4.9 percent of the total industry contribution to GDP. In addition, a further NZ\$5.6 billion was 'value added', that is income generated by supporting industries, to the economy as a result of the tourism industry. The services provided for tourism and the goods purchased by tourists account for 6.2 percent of total full-time employment in New Zealand, or 104,000 full-time employees.⁴¹

⁴⁰ European Commission, (March 2004), "Bilateral Trade Relations; New Zealand", Trade Issues, available on the world wide web at <http://europa.eu.int>, accessed on 13/04/2005.

⁴¹ Tourism Research Council New Zealand, (June 2004), Tourism Satellite Account: 2000-2003, available on the world wide web at: <http://www.trcnz.govt.co.nz>, accessed on 19/04/2005.

Figure 4.06



Statistics New Zealand, (February 2005), *New Zealand External Trade Statistics; June 2004*, "Section 2; Services Trade; Table 2.01", available on the world wide web at: <http://www.stats.govt.co.nz>, accessed on 14/04/2005.

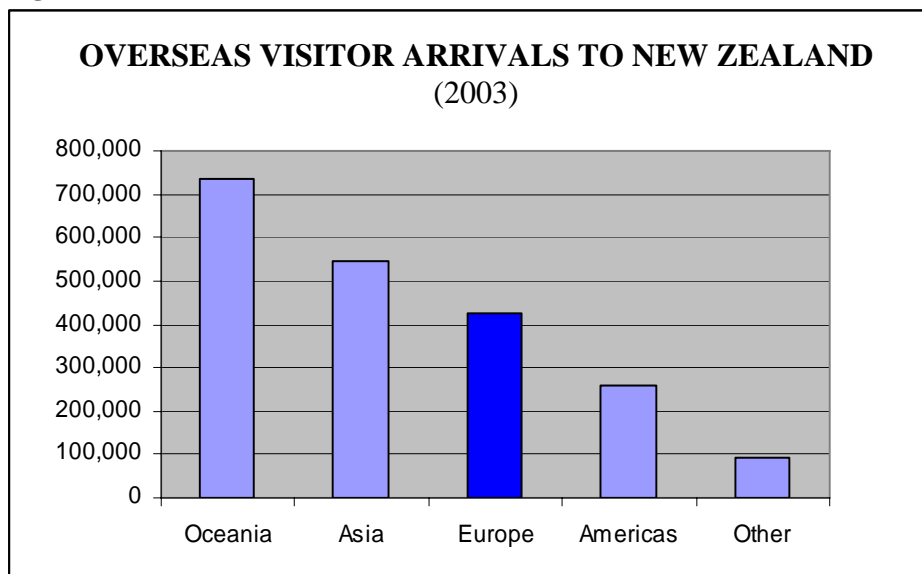
Travel to New Zealand from the rest of the world for business, personal or health reasons in 2004 was worth NZ\$5.4 billion to the national economy, an increase of 62 percent over five years. This increase of travellers to is attributed to two factors. Firstly, a significant increase in travellers arriving for personal reasons, and secondly, people arriving for educational purposes. Personal travel has increased by 62 percent and educational travel to New Zealand has increased by 342 percent over the last five years.⁴² Imports of travel services, that is New Zealanders leaving to go overseas, has increased significantly less over the same period. In 1999 this was worth almost NZ\$2.8 billion to overseas markets, in 2004 this had increased by a little over 10 percent to NZ\$3.1 billion.

⁴² Statistics New Zealand, (February 2005), *New Zealand External Trade Statistics; June 2004*, "Section 2; Services Trade; Table 2.01", available on the world wide web at: <http://www.stats.govt.co.nz>, accessed on 14/04/2005.

4.5.4 Economic Value of New Zealand and European Union Travel

Europe remains one of New Zealand's most important markets for tourism. It provides a significant number of visitors each year and visitor arrival trends show visitors from Europe are increasing and European visitors to New Zealand each year out-number those from New Zealand's other major trading partners such as the Americas (see figure 4.07).

Figure 4.07



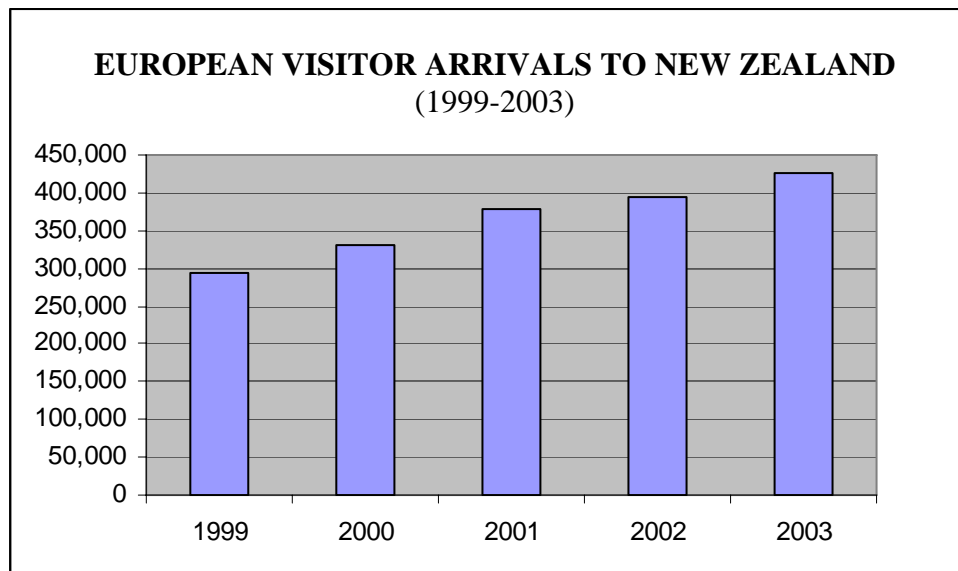
Source: Tourism Research Council New Zealand, (June 2004), *Tourism Satellite Account; 2000-2003*, available on the world wide web at: <http://www.trcnz.govt.nz>, accessed 19/04/2005.

Visitor arrivals from Europe continue to increase, developing a trend that usually exceeds the total average percentage increase of tourists to New Zealand from other markets. In 2003 tourist numbers from Europe increased 8.5 percent from 2002, exceeding the total average by 3 percent from other regions. Similarly, 2001 visitor numbers from Europe increased by nearly three percent from 2000 to 14.6 percent. The exception to this growth trend was the 2001 and 2002 comparison when growth from Europe declined 10.5 percent.⁴³ This decline is consistent with all New Zealand's major tourist markets and can

⁴³ Tourism Research Council New Zealand, (June 2004), *Tourism Satellite Account; 2000-2003*, available on the world wide web at: <http://www.trcnz.govt.nz>, accessed 19/04/2005.

be largely attributed to the terrorist attacks in the United States during September of 2001. Nevertheless, growth continued from the European market and continues to climb (see figure 4.08), testament to Europeans consideration of New Zealand as a safe destination to visit.

Figure 4.08



Source: Tourism Research Council New Zealand, (June 2004), *Tourism Satellite Account: 2000-2003*, available on the world wide web at: <http://www.trcnz.govt.nz>, accessed 19/04/2005.

As in most of New Zealand's relationship with the European Union, tourism originating from Europe largely stems from the United Kingdom, which in the year ended 2004 provided 277,924 visitors to New Zealand, an increase of over eleven percent from the previous year. Although the UK is the biggest European market for New Zealand tourism, other countries within the EU also contribute large numbers of visitors every year. Germany is the second most important country from the EU to New Zealand's tourism industry, accounting for almost 55,000 tourists during 2004, growth of nearly 7 percent from 2003. The Netherlands (25,858), Ireland (16,357), France (15,524), Sweden (12,379)

and Italy (6,988) made up the other significant markets for New Zealand tourism in 2004.⁴⁴

4.5.5 Services: Export of Education Case Study

The education sector is one of the largest and most rapidly growing sectors of service exports for New Zealand. Provisions in New Zealand's Education Act 1989 have seen tertiary institutions and schools actively recruit full fee-paying students from abroad, which have resulted in rapid growth of this relatively recent service sector. Export education providers, now numbering over seven-hundred, have expanded rapidly in New Zealand to cater for the influx of foreign students.⁴⁵ The phenomenal growth of international students in recent years has been attributed to the high standard of education offered by New Zealand's tertiary institutions coupled with the perceived safe and high standard of living. Approximately 122,000 foreign fee-paying students, originating from over 110 countries choose New Zealand as their destination for study. The main institutions populated by foreign students are English language schools, secondary or primary schools (compulsory), tertiary institutions (state tertiary) and some specialist private trainers (private tertiary establishments or PTE's).⁴⁶ It is projected foreign exports in this sector could amount to NZ\$7 billion by 2025, although these projections will require market diversification beyond the traditional education markets of East Asia.⁴⁷

⁴⁴ Statistics New Zealand, (February 2005), New Zealand External Trade Statistics; June 2004, "Section 2; Services Trade; Table 2.01", available on the world wide web at: <http://www.stats.govt.co.nz>, accessed on 14/04/2005.

⁴⁵ New Zealand Ministry of Education, (February 2005), Export Education in New Zealand; a Strategic Approach to Developing the Sector – An Overview, available on the world wide web at: <http://www.minedu.govt.nz>, accessed on 19/04/2005.

⁴⁶ New Zealand Trade and Enterprise, (2004), International Education; a First Class Sector, available in the world wide web at: <http://www.nzte.govt.nz/section/11761.aspx>, accessed 19/04/2005.

⁴⁷ Ibid.

Table 4.03

FOREIGN STUDENTS STUDYING IN NEW ZEALAND (2003)					
	Compulsory	State Tertiary	Private Tertiary	English Language Schools	Total
Number of Students	17,448	26,022	5,653	71,503	120,626

Source: Statistics New Zealand, (February 2005), "Overseas Student Numbers Studying in New Zealand", *Section 2: Services and Trade*, Table 2.03, available on the world wide web at: <http://www.stats.govt.co.nz>.

The majority of international students originate from East Asia. In 2003 this region contributed 86,980, or 72 percent of the total overseas students studying in New Zealand educational institutions.⁴⁸ In the mid 1990s Malaysia was the primary source of foreign fee paying students in New Zealand, more recently the sector has seen massive growth from China and Korea which now make up the key sources of international students in New Zealand.⁴⁹

The European Union provides a potential market for New Zealand's international education sector that could rival that of East Asia, and such diversification would be consistent with New Zealand Trade and Enterprise desire to diversify New Zealand's international education sector. Student numbers from European countries are miniscule in comparison to those from East Asia; however the European market provides opportunity for expansion in this sector, especially at a time the Asian market is declining. In 2004 only 5,334 students originating from a European country were studying at New Zealand tertiary institutions, most of these originated from European Union countries, and mostly

⁴⁸ Source: Statistics New Zealand, (February 2005), "Overseas Student Numbers Studying in New Zealand", *Section 2: Services and Trade*, Table 2.03, available on the world wide web at: <http://www.stats.govt.co.nz>.

⁴⁹ New Zealand Ministry of Education, (February 2005), *Export Education in New Zealand; a Strategic Approach to Developing the Sector – An Overview*, available on the world wide web at: <http://www.minedu.govt.nz>, accessed on 19/04/2005.

from Germany. International students from European countries mostly frequent English language institutes or university institutions.

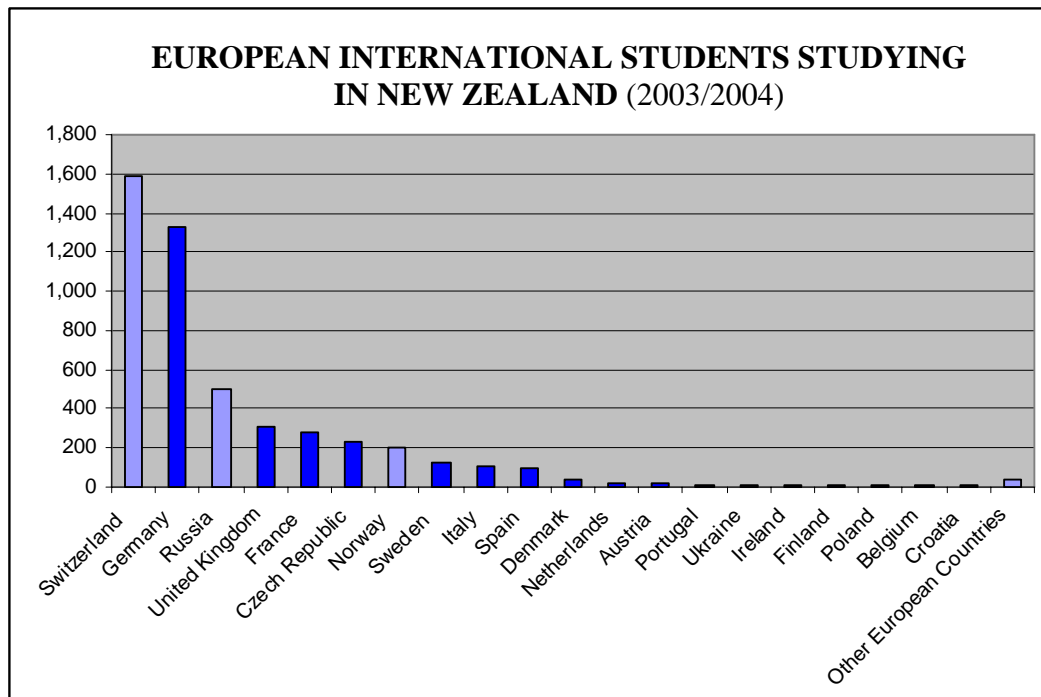
Table 4.04

EUROPEAN STUDENT NUMBERS STUDYING IN NEW ZEALAND (2003)					
	Compulsory	State Tertiary	Private Tertiary	English language school	Total
Total European Students	383	1,062	177	3,835	5457

Source: Statistics New Zealand, (February 2005), "Overseas Student Numbers Studying in New Zealand", Section 2; Services and Trade, Table 2.03, available on the world wide web at: <http://www.stats.govt.co.nz>.

Switzerland is the most common country of origin for European students studying in New Zealand; Germany is the most common European Union country of origin for EU students studying in New Zealand. Noticeable is the lack of foreign student's from the United Kingdom studying in New Zealand. The United Kingdom is more closely associated with New Zealand than any other European country, and many New Zealanders travel to the United Kingdom for study or work every year.

Figure 4.09



Source: Statistics New Zealand, (February 2005), "Overseas Student Numbers Studying in New Zealand", Section 2; Services and Trade, Table 2.03, available on the world wide web at: <http://www.stats.govt.co.nz>.

****Note:** Dark blue bars indicate European Union countries

The potential of the European Union market was recognised by the New Zealand government in the 2004 Budget. As part of a NZ\$40 million initiative over four years, the EU was identified, along with three other multilateral agencies, for New Zealand to build closer educational relationships with in the field of export education.⁵⁰ A survey carried out by the New Zealand Ministry of Education demonstrates foreign students originating from Europe have significantly increased over the past decade, and although not at the same levels of Asia, have contributed to the phenomenal growth of the export education sector. The largest growth area for New Zealand's export education from students originating in Europe is in the tertiary sector, both public and private, which has increased in excess of 300 percent over six years (see table 4.05).

Table 4.05

EUROPEAN FEE PAYING STUDENTS IN NEW ZEALAND (1996-2001)							
Education Sector		1996	1997	1998	1999	2000	2001
Compulsory	Years 1-8	25	13	12	23	32	32
	Years 9-15	74	70	96	106	162	187
State Tertiary		212	268	250	397	533	680
Private Tertiary		Not available	3	9	68	75	165

Source: New Zealand Ministry of Education, (August 2002), Foreign Fee Paying Student Statistics to 2001, International Policy and Development Unit; Strategic Information and Resourcing Division, available on the world wide web at: <http://www.minedu.govt.nz>.

****Please Note:** figures for English Language Providers were not available for this survey.

The 2004 enlargement of the European Union has provided the New Zealand export education sector an opportunity to further expand European fee paying students in New Zealand, particularly in the field language tuition. Very few students originated from any

⁵⁰ New Zealand Ministry of Education, (May 2004), Moving Forward in International Education, available on the world wide web at: <http://www.minedu.govt.nz>, accessed on 19/04/2005.

of the enlargement countries in 2004 compared to students from Western Europe. In 2004, 230 students originated from the Czech Republic, mostly studying in English language schools, and seven students originated from Poland, all of which were based at tertiary institutions.⁵¹ The 2004 enlargement countries seemingly offer potential for growth in the European foreign fee paying education market. With relatively few students studying in New Zealand from these countries at present, an expressed desire by New Zealand Trade and Enterprise to diversify markets to regions other than Asia, and the Ministry of Education investing in the EU market, all compile to create an opportunity for the creation of new markets in the former communist states. Obvious challenges present themselves to an agenda such as this. Firstly, the relative economic condition of the enlargement countries does not allow many individuals the personal funding to cover the cost of travel to and from New Zealand, accommodation and tuition fees while studying. This challenge is being overcome by two factors. Firstly, part of the New Zealand Ministry of Education's strategic direction of export education will see scholarships offered to the top 200 tertiary students to carry out research in New Zealand.⁵² Secondly, the continued economic growth of their home countries, especially since enjoying the economic benefits of accession to the EU, will allow many individuals the ability to travel further to study in the future.

4.6 BILATERAL INVESTMENT

Foreign investment makes up the third part of any economic relationship. New Zealand is officially ranked highest in terms of the relative significance of foreign investment in the

⁵¹ Statistics New Zealand, (February 2005), "Overseas Student Numbers Studying in New Zealand", Section 2: Services and Trade, Table 2.03, available on the world wide web at: <http://www.stats.govt.co.nz>.

⁵² New Zealand Ministry of Education, (May 2004), Moving Forward in International Education, available on the world wide web at: <http://www.minedu.govt.nz>, accessed on 19/04/2005.

economy when indexed against other developed countries.⁵³ Investment flows between New Zealand and the European Union are significant, mostly due to the United Kingdom as a major investment partner.

Statistics relating to international investment are often arbitrary for a number of reasons. Firstly, accounting for total quantities of investment and the destination it originates from is an impossible task for number of reasons. Firstly, many statistics are unavailable because they are kept confidential for commercially sensitive reasons. Many businesses will not reveal the total stock of their foreign investments, or in what specific sectors or countries they have invested in order to protect their often very large investments. Secondly, the source destinations of investment statistics are derived from the country in which the immediate investor party is resident. This does not always accurately reveal the source country of the investment and statistics often become distorted by the method of international financial transactions.⁵⁴

4.6.1 Investment in New Zealand

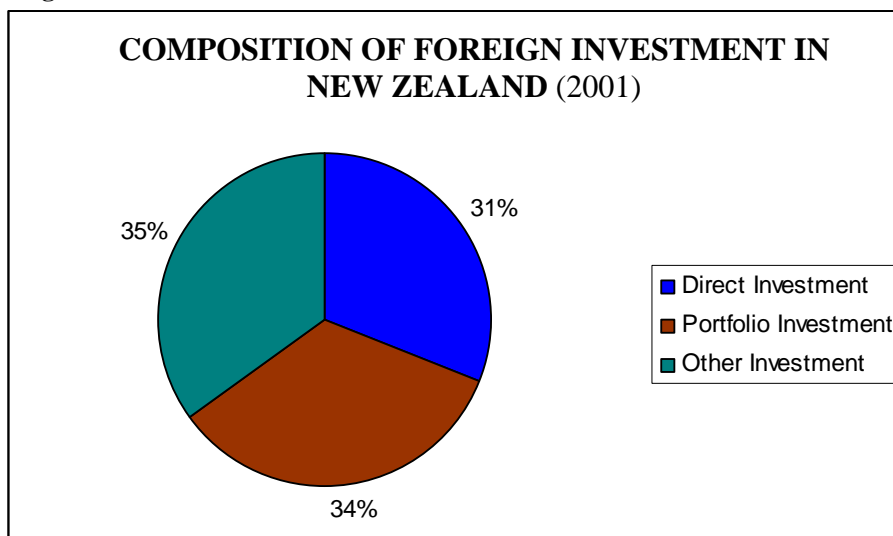
In 2001, total foreign investment in New Zealand was \$NZ 168 billion, made up of \$NZ 49 billion of foreign direct investment, \$NZ 54 billion of foreign portfolio investment and \$NZ 57 of other investments. This composition is demonstrated in figure 4.11 showing the percentile composition of the total stock of investment in New Zealand in 2001.⁵⁵

⁵³ UNCTAD, World Investment Report 2000: Cross Border Mergers and Acquisitions and Development, figure I. 13, pp 23, in New Zealand Overseas Investment Commission, (2002), pp 1-2, Key Facts, Figures and Trends about Foreign Direct Investment, <http://www.oic.govt.nz>, accessed on 30/04/2005.

⁵⁴ Statistics New Zealand, (November 2003), pp 9, “New Zealand’s Investment Relationship with Selected Countries”, Key Statistics-November 2003, International Accounts Division.

⁵⁵ New Zealand Overseas Investment Commission, (2002), pp 1-2, Key Facts, Figures and Trends about Foreign Direct Investment, <http://www.oic.govt.nz>, accessed on 30/04/2005.

Figure 4.10



Source: New Zealand Overseas Investment Commission, (2002), *Key Facts, Figures and Trends about Foreign Direct Investment*, <http://www.oic.govt.nz>.

Of the various types of capital flows, Foreign Direct Investment (FDI) is generally considered to be the most desirable. FDI presents many benefits that other forms of capital gain do not. It does not disrupt domestic investment in the economy, such as bank loans and bond funds, as these tend to crowd out domestic investment. FDI is claimed to be less volatile than external debt during times of economic crises as debt is set in fixed nominal terms, FDI is re-priced as the economic conditions evolve. It can also provide technological and managerial expertise where other forms of capital do not.⁵⁶

4.6.2 New Zealand-EU Investment

New Zealand's investment patterns are consistent with small state theory in terms that it limits the majority of its investments to a restricted number of overseas markets. As a small state, New Zealand's economy does not possess the resources required to diversify significantly into a range of markets around the globe. This explains the established investment partners Australia, the United States and the United Kingdom as the major

⁵⁶ United Nations Economic Commission for Europe; Economic Analysis Division, "Foreign Trade and Payments in the EU-10, South-East Europe and the CIS", *Economic Survey of Europe*, 2005, iss. 1, pp 87.

source and destination of investment into and out of New Zealand. In 1993, the United States, United Kingdom and Australia contributed a total of 74 percent of total foreign direct investment in New Zealand. Likewise, New Zealand in the same year invested 76 percent of its total overseas investment in these three countries. This scenario remains the same to the present day, although investment to these traditional markets has declined by about 10 percent with the increase of investment to Singapore and Germany.⁵⁷

The EU has traditionally been a major source of investment in New Zealand, mostly due the traditional trading relationship with the United Kingdom. In 2001, EU investment in New Zealand exceeded €1.1 billion. In contrast, New Zealand individuals and companies had invested €2.3 billion into EU member states.⁵⁸ Comparably with New Zealand's other leading trading partners the EU is a major, but not the largest investor in New Zealand. Australia, the United States and the United Kingdom are the largest sources of investment in New Zealand, and retrospectively are New Zealand's largest destinations for investment.⁵⁹ Remarkably, Asian investors provide comparably minimal investment of to New Zealand. While investments from Asia were increasing throughout the 1990's, the Asian economic crisis of the late 1990's significantly halted growth of foreign investment from the Asian market.⁶⁰

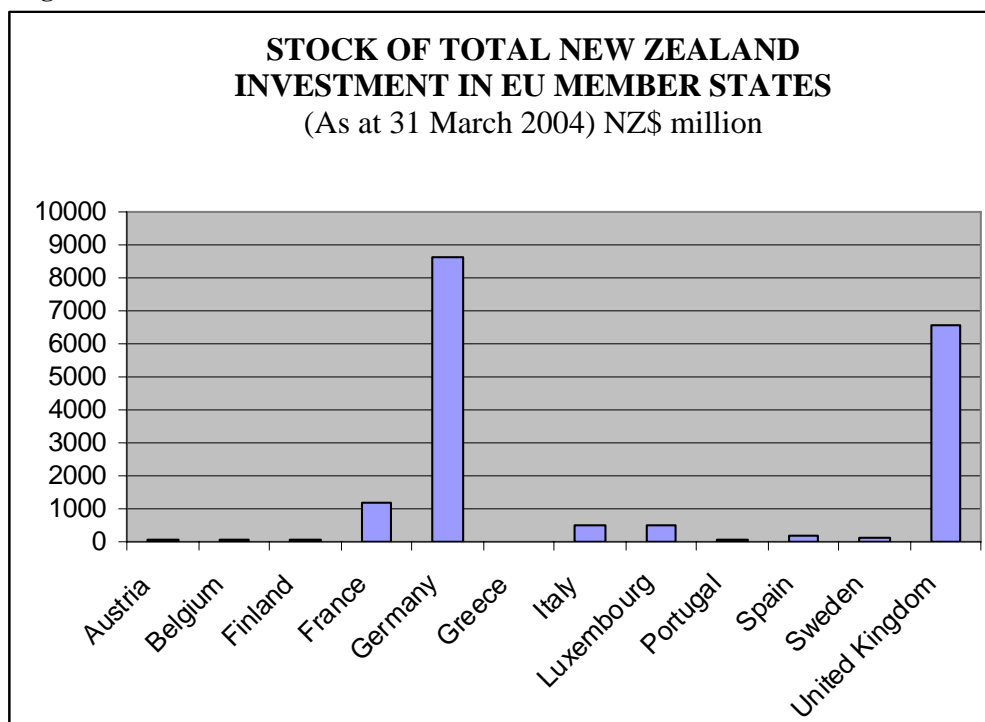
⁵⁷ Statistics New Zealand, (November 2003), pp 10-12, "New Zealand's Investment Relationship with Selected Countries", Key Statistics-November 2003, International Accounts Division.

⁵⁸ European Union Commission Delegation to New Zealand, EU-New Zealand Economic Relations, available on the World Wide Web at: <http://www.ecdel.au/nz/tradeandconomy.html>, accessed on 18/08/2004.

⁵⁹ Statistics New Zealand, (November 2003), pp 9, "New Zealand's Investment Relationship with Selected Countries", Key Statistics-November 2003, International Accounts Division.

⁶⁰ NZ Institute of Economic Research, (May 1998), pp 5, Foreign Direct Investment in New Zealand Forestry, Working Paper 98/5.

Figure 4.11

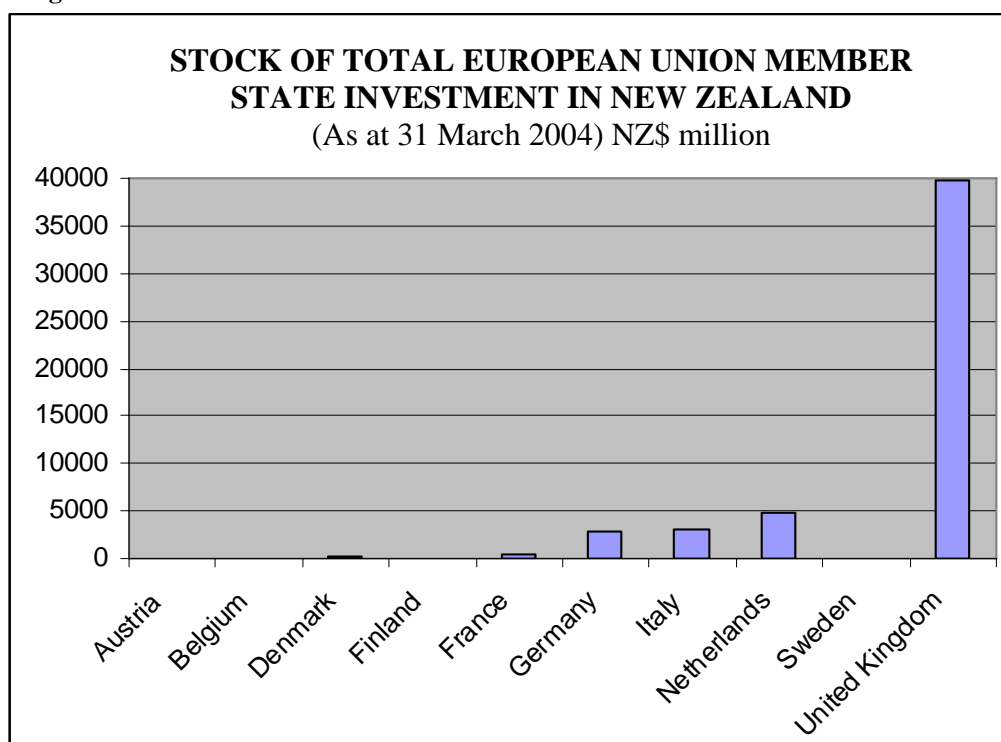


Source: Statistics New Zealand, *Balance of Payments and International Investment Position: Annual Country Breakdown 2004*.

NOTE: New Zealand's investment figures abroad for Denmark and Ireland remained confidential at time of writing.

NOTE: A portion of the total investment from Greece remained confidential at time of writing.

Figure 4.12

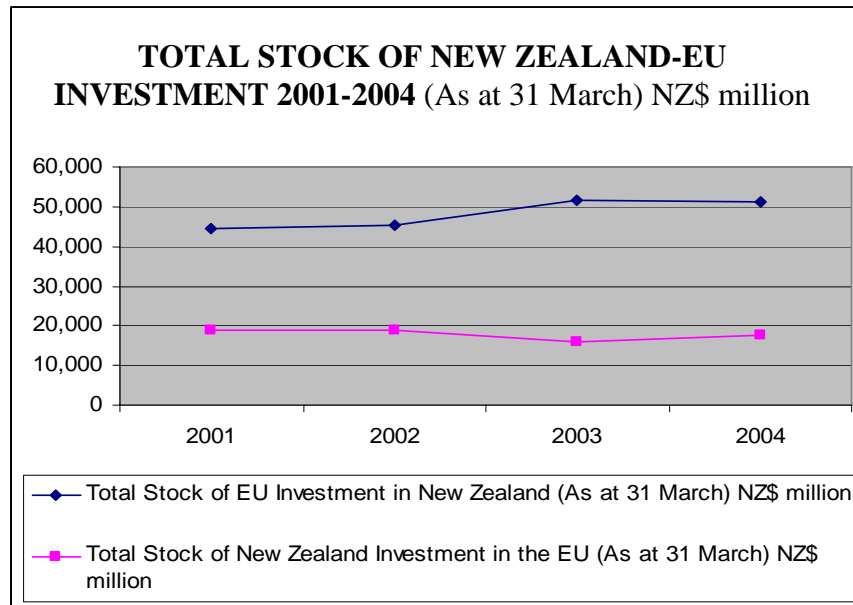


Source: Statistics New Zealand, *Balance of Payments and International Investment Position: Annual Country Breakdown 2004*.

Note: Investment statistics for overseas investment into New Zealand from Greece, Ireland, Luxembourg, Portugal and Spain remain confidential at time of writing.

Figures 4.11 and 4.12 displays the international investment relationship between New Zealand and the European Union for 2004. It demonstrates the significant role the United Kingdom continues to play in the New Zealand economy. Germany is notable as a significant destination for New Zealand investment abroad and for investment into New Zealand. It also reveals a large disparity between the key investment states within Europe and other EU member states. Of the 2004 enlargement countries, New Zealand has had some investment relationship with Cyprus, Czech Republic, Hungary, Malta, Poland, Slovakia and Slovenia. However, the totals either remain confidential or are too insignificant to warrant reference here. The total stock of investment between New Zealand and the EU is demonstrated in figure 3.14. The trend shows very little difference in the level of investment over the past four years. EU investment in New Zealand is considerably larger than New Zealand's investment in the EU, which is attributed to the significant contribution from investment sourced from the United Kingdom (see figure 4.13).

Figure 4.13



Source: Statistics New Zealand, Balance of Payments and International Investment Position: Annual Country Breakdown 2004.

NOTE: Statistics in figure 4.14 exclude investments that are unidentifiable and those that remain confidential at time of writing.

4.7 CONCLUSION

Trade dominates the foreign policy of small states. This is attributed to the fact that small states are restricted in their foreign policy executions by limited resources and small populations. To compensate, they demonstrate a tendency, sometimes depending which political party is in government, to focus resources and diplomacy towards maintaining existing trading relationships and developing new markets. This is the most effective way of exercising their foreign policy objectives, as new trade markets present the greatest gain to small states. Contributing to the economic focus of their foreign policy is the limited focus of small states on political issues, as this is perceived as an ineffectual use of limited diplomatic resources. The economic foreign policy is often exercised in the multilateral arena, particularly the World Trade Organisation, Cairns Group and the OECD, where economic policy positions can be exerted to a maximum number of third states through a single delegation, making the multilateral arena an efficient use of diplomatic resources.

Acting through multilateral institutions is a common characteristic of small states and the management of New Zealand's economic relationship with the EU is consistent with this theoretical approach. The economies of small states are vulnerable with the limited diversity in the products produced for export. New Zealand's exports are overwhelmingly dominated by the agriculture industry, making it vulnerable to shocks in the international agriculture sector and establishing the necessity to increase market access to lucrative markets such as the EU. As such, New Zealand has made considerable effort to increase market access to the EU, predominately through the multilateral setting of the WTO.

The size of the trade relationship between New Zealand and the EU is considerable for the smaller partner, but not so significant for Europe. The EU provides a lucrative and stable market for New Zealand's agricultural exports that reap prices unlikely to be attained in other markets throughout the world. Continuous growth in the trading relationship has seen merchandise trade climb to a total value of €5.8 billion, although New Zealand is suffering from a €300 million deficit in the merchandise component of the relationship. This has resulted from the differentiation of products traded between the two partners, with New Zealand chiefly exporting primary products and the EU exporting more expensive industrial and manufactured goods. The large disparities should be kept in perspective, as many of the imports of technological products from the EU are singular, but expensive items. For example, Air New Zealand's purchase of Airbus aircraft inflated the value of transport equipment from the EU to €707 million in 2004 due to the high expense of purchasing new aircraft.

Trade in services is the single most important aspect of the global economy, and of any bilateral relationship. Efficient merchandise trade cannot occur without an effective

service sector in place to facilitate a trading relationship. Growth in services is significant and contributes more to the domestic GDP of both New Zealand and the EU than does merchandise trade and provides employment for approximately two-thirds of the labour market. Bilateral service trade was worth a total of €1 545 billion in 2004, mainly in education, tourism, travel and communication sectors. The export education and tourism industry are significant service sectors in New Zealand and extremely important to the local economy. Tourism is a major contributor to the New Zealand economy and many of those visitors originate from the EU. Tourism from Europe has been growing each year, and in 2004 over four-hundred thousand European's visited New Zealand for a variety of reasons. International students from Europe contribute minimally to the economy but present enormous potential to attract significantly more students, particularly in the English language field since EU enlargement.

Although an accurate figure of total foreign investment is impossible to attain, statistics available demonstrate bilateral investment between New Zealand and the EU is very significant. Investment is vital to the economies of both New Zealand and the EU as it encourages research of new technologies and the development of existing export producers. 2001 figures estimate total foreign investment between the two partners is valued at \$NZ 168 billion. The majority of New Zealand investment in Europe is invested in the United Kingdom and Germany. Investment in New Zealand is overwhelmingly sourced from the United Kingdom with emerging partners arising in Germany, Italy and the Netherlands.

Overall, the economic relationship is more significant for New Zealand than it is for the EU. It dominates the bilateral relationship demonstrating New Zealand behaves as a small

state by focusing its foreign policy on trade. The relationship has a trend for growth in both merchandise and service trade, although the majority of New Zealand's trade still goes to the United Kingdom. New Zealand needs to diversify its markets to include the wider EU although trade restrictions such as quotas make this difficult. It is subsequently necessary for New Zealand to act through multilateral institutions, especially the WTO to achieve greater market access by promoting free trade and persuading the EU to relax protectionist measures in the agriculture sector to facilitate greater trade between the two partners.

CHAPTER FIVE

Economic Challenges

5.1 INTRODUCTION

The CAP, WTO disputes and European Union enlargement present three serious challenges to the ongoing prosperity of the economic relationship. These issues are of greater concern for New Zealand, and form the basis of negotiations with the EU, both bilaterally and within the multilateral sphere. These challenges are discussed in this chapter. The issues present challenges for New Zealand as vital economic interests, while for the EU the issues present challenges within the context of the bilateral relationship with New Zealand.

The most contentious challenge confronting the New Zealand-EU economic relationship revolves around the European Union's protectionist Common Agricultural Policy (CAP). Liberalisation of the policy would be worth millions to the New Zealand economy, although internal pressure from the agricultural fraternity within the EU prevents any meaningful reform. This chapter explores why the policy is necessary and what objectives it seeks to achieve. It also discusses the reforms that have taken place, and assesses why New Zealand tackles the issues through the multilateral forum of the World Trade Organisation.

It then discusses the two complaints New Zealand has brought against the EU at the WTO. These complaints are significant in discussing small state theory as they could be perceived as alienating behaviour. If this behaviour is considered alienating then New Zealand has

indulged in economic behaviour that contradicts small state theory, without consequence as the theory suggests. To resolve this issue, the section first discusses the current dispute that New Zealand is a third party to regarding geographical indicators. It then discusses the earlier dispute concerning New Zealand's 'spreadable butter' exports to the EU and the Commission imposing higher tariffs to the product.

The third part to this chapter discusses the economic challenges posed to New Zealand from EU enlargement. The recent enlargement of the EU from fifteen to twenty-five member states presents new challenges and opportunities for New Zealand exporters. The challenges of the 2004 enlargement will be explored, and their possible impact discussed to provide a model for the impact that future enlargements may pose to New Zealand. Bulgaria and Romania are due to join the EU in 2007, and Turkey is likely to be granted accession at some stage in the future. The 2004 enlargement will provide a model to follow in assessing what likely impact these and other future enlargements will face New Zealand.

5.2 ECONOMIC CHALLENGES AND SMALL STATE THEORY

The economic challenges offer a critique of the small state behavioural framework because aspects of the theory ignore the discord realities of international relations. The theory purports small states will avoid foreign policy behaviour that may alienate larger states. Points of contention or disagreement will arise at some point in all bilateral or multilateral relationships. While small states will attempt to avoid unnecessary conflict, certain sensitive issues cannot be ignored. Therefore, the avoidance of discord does not fit into the practical aspects of

international relations because the very nature of such relationships is often based on seeking resolution of issues that two partners do not agree.

This scenario is presented within the context of the New Zealand-EU relationship. The bilateral relationship at the WTO, regarding genuine reform of the Common Agricultural Policy and complaints brought against the EU by New Zealand, presents two scenarios of behaviour that could be considered alienating. Additionally, EU enlargement often presents significant economic challenges for New Zealand to overcome. Although these challenges are consistent with small state theory in terms that they are focused on economic issues, they are inconsistent from the perspective they could be perceived as alienating an important trading partner. The small state framework contradicts this aspect of the relationship because discord is common in all relationships and is always potentially alienating, therefore presenting a risk to the economic relationship.

Three factors contribute to the protection of New Zealand, as a small state, when engaging in action and dialogue concerning sensitive issues with the EU. Firstly, the protection of multilateral institutions allows it greater liberty to pursue sensitive issues. Trade rules of the WTO must be abided by all member states and institutions. If a member breaks these rules then small states have the opportunity to mediate within the WTO under the protection of its mandate. Secondly, alienating behaviour should be conceived in terms of a scale. Most discord between responsible bilateral partners will not reach the extreme ends of such a scale which will result in alienation. As responsible international citizens, the EU and New Zealand welcome the pursuit of constructive dialogue on sensitive issues without fear disagreement

will discriminate against New Zealand as the smaller partner. Thirdly, the desire of states to be responsible global actors limits their negative repercussions towards small states. In seeking to maintain a positive reputation of such responsibility, the EU will not seek to punish New Zealand as a respected bilateral partner when disagreement arises on particular issues of importance.

5.3 COMMON AGRICULTURAL POLICY (CAP)

The issues surrounding the CAP fall under the wider umbrella of the global trading system. Both New Zealand and the EU have similar philosophies regarding global trade and support the multilateral system, overseen by the WTO. The global integration process is commonly known as ‘globalisation’, which is a similar process to that of European integration, only far more general and predominately, although not strictly, with an economic focus.¹ It is the philosophies of this integration process, particularly free and fair trade, which have come to dominate many bilateral and multilateral trade negotiations in various arena’s of international trade discourse. The trade liberalisation focus is no exception in the context of the New Zealand-EU relationship, and it dominates much of the discussion between the two partners. Specifically, the CAP, which is considered by New Zealand as a protectionist trade measure, and has become a major area of bilateral negotiation.

The trade policies and rhetoric preached by the EU often conflict with its actual trade practices. The European Union’s trade policy outlines the importance of free and fair trade where all countries can ‘trade freely with one another on equal terms and without protectionist

¹ Hague, Harrop, and Breslin, (1998), pp 39, Comparative Government and Politics; an introduction, 4th Edition, MacMillan Press Ltd, London.

barriers'.² The key to this policy is the clear understanding that global trade should be facilitated as a transparent process on a 'level playing field' that provides clear 'rules of the game' for all countries to abide.³ The CAP contradicts this trade policy as it is a protectionist trade measure that it is specifically design to advantage European agricultural producers.

5.3.1 Historical Necessity of the Common Agricultural Policy

The origins of the CAP in 1950's Western Europe were to encourage better productivity in the agriculture sector and to ensure a stable supply of food to avoid a recurrence of the post-war food shortages. However, its necessity became much more about ongoing integration negotiations than sustainable farming. Agriculture is a major sector in France, one of the founding members of the EEC, and a staunch supporter of assistance for the agricultural sector. European integration would have failed from the outset had the original six members excluded a common policy on agriculture.⁴

Two key factors made the inclusion of a common policy on agriculture in the Rome Treaty necessary. Firstly, France, a large producer of agricultural products, would have most certainly critiqued anything less than free trade in agriculture as discriminatory compared with the trade agreements on industrial goods that Germany was widely producing. Secondly, if agricultural trade was not free then national pricing levels could differ significantly throughout the Community, effectively giving some member states a competitive advantage

² European Commission, (2003), pp 5, Making Globalisation Work for Everyone; the European Union and world trade, Directorate General Press and Communication, Belgium.

³ Ibid.

⁴ Swann, Dennis, (2000), pp 232, The Economics of Europe; from Common Market to European Union, 9th Edition, Penguin Books, London.

with low prices.⁵ At the time of the Treaty in 1958 the agricultural community accounted for about twenty percent of the Communities overall working population, or about fifteen million people. Early European policy makers identified this as a possible hurdle to economic unification and political integration. Policy makers were concerned that the integration process would suffer if they failed to address agricultural needs with such a large proportion of the Communities population dependent on agriculture for their livelihoods. The agricultural vote in many parts of Europe, especially France, was too large to be ignored, and the agricultural sector was rampant with low incomes and poor living standards.⁶ Agricultural producers exerted political influence within the Community disproportionate to their numbers.⁷ Therefore, the establishment of the CAP was recognition of the importance of the agricultural sector for the continual development and economic integration of the European Community.

5.3.2 Objectives of the Common Agricultural Policy

The establishment of the CAP was widely a creation of France and Germany, primarily initiated to improve productivity and to reduce trade barriers in farming products within the EC's agriculture sector. The Community took a much more protectionist approach to agriculture than to competition and trade in other goods. Other objectives of the CAP quickly became increasingly important to European policy makers, politicians and farmers, including ensuring a high degree of self-sufficiency of supply of agricultural products and the

⁵ Ibid, pp 233.

⁶ Ibid.

⁷ Holmes, Sir Frank, and Pearson, Clive, (1991), pp 75, Meeting the European Challenge: Trends, Prospects and Policies, Institute of Policy Studies, Trade Development Board and Ministry of External Relations and Trade, Victoria University Press, Wellington.

stabilisation of internal European markets.⁸ The CAP established five original key objectives of agriculture production:

- Increasing agricultural productivity through promoting technological progress;
- Ensuring a fair standard of living for agricultural farmers;
- Stabilising agricultural markets;
- Guaranteeing regular supplies of food to consumers; and
- Ensuring reasonable prices of food to consumers.

The policy sought to establish a viable agricultural sector by offering subsidies, guaranteeing prices to farmers and providing incentives for them to produce. It led to the over production of many agricultural products throughout the Community, and by the 1980's the EC had past its intent of self-sufficiency and faced permanent surpluses of all major farm commodities. Much of this surplus was exported to overseas markets, which, having been produced with the help of subsidies, distorted world markets, particularly harming third world countries.⁹

5.3.3 EU Reform of the Common Agricultural Policy

Reform of the CAP throughout the 1990's dramatically changed its design and objectives in recognition that it no longer served the agricultural needs of Europe, and to become compliant with World Trade Organisation's (WTO) trade requirements after its founding in 1995. The ongoing reforms have moved agriculture production away from over-production to a "market-oriented, environmentally-friendly CAP geared to efficient and sustainable farming."¹⁰

Sustainable development of the farming sector is now a key focus of the CAP as the design of

⁸ Ibid.

⁹ Directorate General for Agriculture, European Commission, (2004), pp 6-7, The Common Agricultural Policy Explained, available on the world wide web at: http://europa.eu.int/comm/agriculture/publi/capexplained/cap_en.pdf, accessed on 5/04/2005.

¹⁰ Ibid.

European farms is often unproductive, inefficient and uncompetitive. This is revealed with a comparative analysis with the United States, which is similar in terms of world trade share. EU farms occupy approximately 143 million hectares, this is only one-third the size of farmland in the United States, yet supports three times as many farms, 6.8 million compared to the United States 2 million farms. As a result many small farms have been established in the EU, which average 16.4 hectares in the EU-15 compared to 188 hectares in the United States.¹¹ This compares to the average New Zealand farm size of 182 hectares,¹² comparable to the United States but eleven times larger than the average size of farms in the EU. Larger farms are considerably more competitive in the international market. Therefore, the average farm size in the EU is simply insufficient to be profitable and is comparable in size to many lifestyle blocks in New Zealand.

It is this uncompetitive nature of EU farms that officials consider it necessary to continue funding farm subsidies for local farmers. The reforms still see farmers receiving direct income subsidies to maintain income stability within the farming sector, however, there is no longer a link made between income subsidies to production. This increases competition amongst the farming fraternity, allowing them to produce according to what they determine is most profitable while still receiving income support. Additionally, the environment has become a major focus of the CAP reforms, requiring farmers to respect environmental, food safety and animal welfare standards. Failing to adhere to this cross-compliance with

¹¹ European Commission, pp 7, Agricultural Trade and its Importance, available on the world wide web at <http://www.europa.eu.int>, accessed on 10/01/2006.

¹² Environment Canterbury, (2004), pp 46, "Part Four; Economy", Canterbury Trends and Forecasts 2004, available on the world wide web at <http://www.ecan.govt.nz/>, accessed on 21/01/2006.

environmental standards could see a reduction in a farmers direct income payment.¹³ The McSharry reform, Agenda 2000 reforms, Mid Term Review and WTO round of negotiations have all presented numerous reforms and proposals of the CAP, all of which have been met with stiff resistance from conservative farming groups with the EU.¹⁴ These reforms have reduced EU prices and subsidies on a range of agricultural products, including a reduction of beef and dairy (butter and cheese) subsidies.¹⁵ The Mid-Term review have reformed the objectives for the new rural policy as follows:

- Increased competitiveness internally and externally
- Food safety and food quality are a fundamental obligation towards consumers
- Integration of environmental goals into the CAP
- Creation of alternative job and income opportunities for farmers and families
- Simplification of EU legislation
- Ensuring a fair standard of living for the agricultural community and contributing to the stability of farm incomes.¹⁶

These new objectives have seen the EU shift away from direct payments of production and reductions in support prices, which decreases the link between subsidies and over-production of agricultural goods.¹⁷ This begins to eliminate the trade distorting effect of subsidised

¹³ Directorate General for Agriculture, European Commission, (2004), pp 7, The Common Agricultural Policy Explained, available on the world wide web at: http://europa.eu.int/comm/agriculture/publi/capexplained/cap_en.pdf, accessed on 5/04/2005.

¹⁴ New Zealand Ministry of Foreign Affairs and Trade, (April 2004), European Union, available on the world wide web at <http://www.mfat.govt.nz>, accessed on 26/08/2004.

¹⁵ Saunders, Caroline (2005), pp 38, "The Mid-Term Review of the CAP; Implications for EU and NZ Agriculture", in Luciano and Mayes, (2005), New Zealand and Europe; Connections and Comparisons, Rodopi, Amsterdam.

¹⁶ Ibid, pp 39.

¹⁷ New Zealand Ministry of Foreign Affairs and Trade, (April 2004), European Union, available on the world wide web at <http://www.mfat.govt.nz>, accessed on 26/08/2004.

European farmers exporting subsidised agricultural goods to the world market, which lower world prices.

5.3.4 The Common Agricultural Policy and New Zealand

New Zealand's trade policies are a stark contrast to the trade principles contained within the CAP. New Zealand's economic reforms of the 1980's propelled it to the forefront of the global trade liberalisation movement. These reforms created a reputation for New Zealand as a world leader in liberal trade policies with the reduction of trade barriers such as tariffs and quotas. The economic reforms moved it from one of the most regulated economies in the developed world, with high levels of government involvement and regulation of the economy, to being amongst the most liberal. Significant reductions in the various trade protection regulations were made throughout the 1980's.¹⁸ Tariff protection of the manufacturing industry was removed and the highly regulated labour-market for agriculture production was liberated. The New Zealand dollar was devalued and then floated and financial markets were deregulated.¹⁹ The government also relaxed private overseas borrowing regulations and removed restrictions of foreign ownership of local financial institutions.²⁰

New Zealand's economy has traditionally been based on its high quality agricultural exports. Due to fertile soils, a low, but educated population, and a climate which allows livestock to graze outside year-round, agriculture has been the basis of the economy since the 1890's. These environmental conditions, coupled with the firm development of the agri-tech industry,

¹⁸ Goldfinch, (2000), pp19-20, Remaking New Zealand and Australian Economic Policy: ideas, institutions and policy communities, Victoria University Press, Wellington.

¹⁹ Ibid, pp13.

²⁰ Ibid.

New Zealand has gained a comparative advantage in agricultural production, making it a very competitive exporter to world markets. The EU's Common Agricultural Policy has therefore been of considerable concern to New Zealand. Trade barriers in the agricultural sector, such as subsidies, quotas and tariffs, are regarded as the largest obstacle to increasing New Zealand's exports to the EU. These restrictive trade barriers currently prevent New Zealand from gaining a larger share of the EU agricultural market for most agricultural exports, except for wool. They also prevent New Zealand from significantly increasing its exports to the enlarged EU since the 2004 enlargement, as quotas are only increased proportionally to the size of the enlarged EU. As agriculture contributes over 50 percent of New Zealand's total exports, compared to only 10 percent for the EU-15, it is understandable why New Zealand lobbies to have open markets and trade barriers removed.²¹

The agri-environmental policies pose a potential area for future discord as they could present a significant impact on bilateral trade with third countries, including New Zealand. Presently, most of the agri-environmental policies are voluntary and vary in nature. However, they will increase in importance as they are likely to become a justification for maintaining agricultural support throughout the EU as sustainability and environmentally friendly farming practices become more prevalent.²²

Europe is amongst New Zealand's largest meat importers and therefore vital to New Zealand's agriculture producers and its economic performance (see table 5.01). The EU is New

²¹ European Commission, (December 2004), "Sectoral Issues; Trade in Agricultural Goods and Fishery Products", Trade Issues, available on the world wide web at <http://www.europa.eu.int>, accessed on 13/11/2005.

²² Saunders, Caroline, "Changes in EU Agricultural Policy and their Potential Impacts on Australia, New Zealand and Japanese Dairy Sectors", Asia-Pacific Journal of EU Studies, vol 1, number 2, winter 2003, pp 169.

Zealand's largest export market for lamb and mutton but only a minor market for beef and veal, most of which is exported to the United States. The EU imports over three times as much New Zealand lamb as its second largest market in the United States. Similarly, the EU is New Zealand's largest market for mutton, comprising nearly half of all New Zealand's mutton exports. The CAP affects each of these commodities by setting quotas and tariffs that make them more expensive for European consumers.

Table 5.01

NEW ZEALAND MEAT EXPORTS BY DESTINATION					
(year ended 30 September 2004) tonnes					
DESTINATION	LAMB	MUTTON	BEEF & VEAL	OTHER	TOTAL
AFRICA	7,303	2,766	638	7,589	18,296
CARIBBEAN	4,379	458	2,420	876	8,133
EUROPEAN UNION (EU-15)	149,874	25,975	1,496	14,320	191,665
EASTERN EUROPE	1,201	248	386	1,275	3,110
MEDITERRANEAN	461	28	589	3	1,081
MIDDLE EAST	19,416	2,777	3,018	2,978	28,189
NORTH AMERICA	46,032	6,382	258,317	5,610	316,341
NORTHERN ASIA	37,249	11,939	112,429	20,280	181,907
PACIFIC	22,033	1,858	13,721	2,610	40,222
SOUTH AMERICA	65	-	15	243	323
SOUTHERN ASIA	3,659	4,153	26,707	22,045	56,564
WESTERN EUROPE	2,945	96	596	4	3,641
OTHER	-	-	-	-	-
TOTAL SHIPMENTS	294,617	56,680	420,342	77,833	849,472

Source: New Zealand Meat Board, (2004), pp 15, New Zealand Meat Board; Annual Report 2003-2004.

The CAP policy affects New Zealand trade both directly and indirectly. Directly, it makes it difficult for New Zealand agricultural exporters to gain access to the European market through quotas, and then difficult to compete against subsidised European producers. Indirectly, it affects New Zealand's access to other markets because of the EU's potential to disrupt them

through subsidised trade.²³ Presented with the potential to affect New Zealand agriculture trade, New Zealand has encouraged CAP reform and welcomes any reduction agricultural protection. The reforms of the CAP have a positive impact for New Zealand's economy, although the dairy sector will continue to struggle as any gains from a reduction in internal EU prices will likely be offset by increases in EU production.²⁴

The large subsidies received by European farmers compare in stark contrast to the nearly non-existent subsidies in New Zealand. Only two percent of New Zealand farm incomes are subsidised making it the most open agriculture sector in the developed world.²⁵ In contrast to Europe where farmers jealously guard their agricultural subsidies, it was New Zealand farmers that proposed the removal of subsidies during the 1980's reform. At this time 30 percent of the value of all production came from government subsidies. The outcome of the dramatic subsidy cut was not that which is feared by European farmers, rather it lowered production and increased incomes. Before the slashing of government assistance, New Zealand grazed nearly 70 million sheep which caused a drop in breeding standards and resulted in many being ground for fertilizer. The sudden removal of subsidies saw farmers increase efficiency by becoming market driven and improve environmental standards. Sheep numbers quickly fell to 47 million, but farmers' earnings increased by 30 percent in real terms due to increased efficiency and excess sheep being sold cheaply as fertilizer.

²³ New Zealand Ministry of Foreign Affairs and Trade, (April 2004), European Union, available on the world wide web at <http://www.mfat.govt.nz>, accessed on 26/08/2004.

²⁴ Saunders, Caroline (2005), pp 39, "The Mid-Term Review of the CAP; Implications for EU and NZ Agriculture", in Luciano and Mayes, (2005), New Zealand and Europe; Connections and Comparisons, Rodopi, Amsterdam.

²⁵ Usher, Rod, "The Kiwi Solution", Time International, 10 December 1998, iss 1, pp 100.

As a small state, New Zealand has limited persuasive influence directly on the EU. Its economy is not large enough for it to be of any significant influence as a negotiating tool for achieving its desired agricultural reform in the EU. New Zealand has therefore employed the use of the multilateral trading system as a platform to campaign for greater market access to the EU. Its significant economic interest sees it as a keen supporter of WTO negotiating Rounds, and staunchly implements the commitments from all previous Rounds. The current round of WTO negotiations has provided New Zealand a platform to further negotiate EU agricultural policy in a multilateral setting. Its key aims at the WTO regarding the EU is to achieve the faster elimination of export subsidies, genuine improvements in market access and a specific cut in the domestic farm subsidies.²⁶ Negotiations between New Zealand and the EU during the current Round are continuing but the EU has made a number of proposals including tariff cuts, a reduction of domestic subsidies, the elimination of export subsidies by 2013, and increased import quotas.²⁷ New Zealand has criticised these proposals as too little as they offer little real substance. The New Zealand government claims the proposals will provide little new market access for exports of cheese, butter and milk powder and only a minimal increase for beef exports. Trade negotiations minister Phil Goff stated “The tariff levels are so high that what has been offered has negligible effect in improving market access by our calculations.”²⁸

²⁶ European Commission, (2006), “New Zealand”, Trade Issues, available on the world wide web at <http://www.europa.eu.int>, accessed on 01/02/2006.

²⁷ European Commission (February 2006), “The Doha Development Agenda; Commissioners Madelson and Fischer Boel meet New Zealand Trade Minister Phil Goff for Doha Talks”, Trade Issues, available on the world wide web at <http://www.europa.eu.int>, accessed on 04/02/2006.

²⁸ Reuters, in The Press, Christchurch, 04/02/2006.

New Zealand's has had previous success negotiating special agricultural arrangements with the EU at the WTO, which is testament to the benefits the multilateral system brings to small states. New Zealand is one of only nine countries to have negotiated Country Specific Tariff Quotas (CSTOs) for several products. These were finalised with New Zealand at the conclusion of the Uruguay Round and formalise New Zealand's pre-existing preferential access to the EU market. The result of this arrangement means New Zealand does not have to enter into bilateral negotiations to maintain market access. The tariff rates for the quotas are bound in the EU's WTO schedule, obligating the EU to maintain New Zealand's quota access to the EU market.²⁹

5.4 WTO DISPUTES

New Zealand has been the complainant in two disputes at the WTO against the European Union. The second of these disputes, regarding trademarks and geographical indicators, is currently before the WTO and New Zealand is a third party to the complaint and not the main complainant. The first dispute resolved in 1999 was the first time New Zealand had initiated action under the WTO dispute settlement procedure.³⁰ New Zealand was successful in reversing the EU definition that New Zealand's innovative dairy product, 'spreadable butter', was not butter therefore subject to considerably higher tariffs. These two disputes are discussed here and analysed to see how dispute resolution at the WTO fits into the foreign policy behaviour of small state's.

²⁹ New Zealand Ministry of Foreign Affairs and Trade, (April 2004), European Union, available on the world wide web at <http://www.mfat.govt.nz>, accessed on 26/08/2004.

³⁰ "New Zealand Opens case over EU Spreadable Butter Rules", Agra Europe, n1740, 27 March 1997.

5.4.1 Trademarks and Geographical Indicators

New Zealand is currently a third party in a WTO dispute against the European Union. It joined action initiated by the United States and Australia with ten other third party complainants concerning geographical indicators and the protection of trademarks for agricultural products and foodstuffs. It arose from the EU amending its regulations that the complainants argue does not provide national treatment with respect to geographical indicators or for pre-existing trademarks that are similar or identical to geographical indicators.³¹ The complainant's argument in this case is that the EU regulations permit only a trademark owner the right to continue using a trademark of a particular geographical location, despite exceptions that have permitted other producers from using particular names for their products. However, the EU claims that the trademark owner retains the right to prevent the use of a name registered as a geographical indicator by any person in relation to any products which originate in a different geographical location.³² The use of the term 'champagne' provides an example of this. The EU regulations asserts that only sparkling wine produced in the French region of Champagne are permitted to use 'champagne' to label their products. The main argument from New Zealand, in conjunction with other third parties, is that certain exceptions are provided to exclusive trademark rights. These may include such instances of honest concurrent use, prior use of trademarks in good faith, comparative advertising, uses for spare parts and certain non-commercial fair uses. New Zealand also argues a further point that 'coexistence' is not a 'limited' exception within the meaning of WTO regulations because

³¹ World Trade Organisation, (1 December 2005), "Protection of Trademarks and Geographical Indications for Agricultural Products and Foodstuffs", Dispute Settlement, DS174.

³² World Trade Organisation, (15 March 2005), 7.658-7.659, "Protection of Trademarks and Geographical Indications for Agricultural Products and Foodstuffs", Panel Report, WT/DS174/R.

it excludes an entire group of producers from the trademark owner's right to prevent confusing uses.

5.4.2 Spreadable Butter

One of the most sensitive disputes between New Zealand and the EU emerged in the late 1990's concerning New Zealand's innovative 'spreadable butter' product. The European Commission ruled the dairy product was not 'butter' as defined by its regulations and therefore subject to considerably higher tariffs. The dispute arose from the European Commission asserting that the 'spreadable butter' did not meet its definition of butter as it was produced using a 'fractionation' process which removes the hard fats and allows it to be spread directly from refrigeration. New Zealand's counter argument to this ruling was that the product is made from exactly the same ingredient as butter, the only difference being the manufacturing process. It then asserted that the European Commission's ruling on the product was an imposed trade barrier contravening WTO regulations.³³

The Commission's ruling was a devastating blow for New Zealand dairy exporters as it meant paying much higher tariffs, making it much more expensive to deliver the product to the European consumers. New Zealand's 76 667 tonne butter quota to the EU was subject to an import duty of €68.8 per tonne under the preferential quota scheme negotiated at the WTO. However, imports outside of this quota were subject to a considerably higher import tariff of €2 429 per tonne.³⁴ The extra tariff cost the New Zealand dairy industry an additional \$NZ 15

³³ "New Zealand Faces Penalties over Spreadable Butter", *Agra Europe*, n1722, 15 November 1996.

³⁴ *Ibid.*

million a year in extra import duties.³⁵ The ruling that ‘spreadable butter’ did not comply with the Commission’s definition of butter meant the product was subject to the much higher import tariff, thereby considerably increasing its price to European consumers and limiting sales. The product was key to New Zealand’s marketing approach for countering stiff competition of margarine, therefore the increased tariffs also hampered its campaign against its chief competition.³⁶

The two parties negotiated a mutually agreed settlement during compulsory consultation at the WTO before a Panel was able to make a ruling on the issue. The settlement was in two parts. The first part dealt with the dispute and resulted in the Commission reversing its decision on spreadable butter and altering its definition of butter to include the manufacturing process used to produce spreadable butter. The second point required New Zealand to formally withdraw the WTO Panel proceedings without prejudice.³⁷ This was particularly important to the EU and is believed to be a pre-condition of the settlement as the Commission sought to prevent the WTO Panel publishing its report on the issue. It feared this would bring damaging accusations that the Commission is reluctant to abide by the international dispute settlement procedure. European Commissioners stated “the interests of the Community would be best served by agreeing with New Zealand to accept the interpretation of the WTO panel...and to adjust our interpretation for the purposes of the quota... [because the Commission thought the WTO Panel findings] could have knock-on effects on customs clarifications”.³⁸

³⁵ “New Zealand to call for WTO panel on spreadable butter”, *Agra Europe*, n1733, 7 February 1997.

³⁶ “New Zealand Faces Penalties over Spreadable Butter”, *Agra Europe*, n1722, 15 November 1996.

³⁷ World Trade Organisation, (18 November 1999), “Measures Affecting Butter Products; Notification of Mutually Agreed Solution”, WT/DS72/7, G/L/157/Add. 1 (99-5028).

³⁸ “European Union Concedes Defeat over New Zealand Spreadable Butter”, *Agra Europe*, 11 June 1999.

Demonstrating the Commission was eager to settle the dispute without the publication of a WTO report that could raise further disputes.

The dispute was also fought in the United Kingdom's High Court against UK Customs and Excise, New Zealand won this case immediately prior to the WTO settlement.³⁹ The United Kingdom is the main European market for New Zealand dairy exports of spreadable butter, importing 5,000 tonnes annually.⁴⁰ These court proceedings, brought by UK Customs and Excise, influenced New Zealand's decision to pursue the case at the WTO as the UK organisation demonstrated a desire to exhaust its domestic legal process regarding the issue after losing in lower courts.⁴¹ New Zealand's case was strongly supported by the United Kingdom's Consumers' Association which backed New Zealand's claim that the manufacturing process did not rule it inadmissible for the preferential butter quota.⁴² New Zealand pursued the issue at both the WTO and the domestic courts of the UK because it needed a comprehensive ruling in its favour, especially regarding the UK as its main export market.

5.4.3 Small State Theory and New Zealand/EU WTO Disputes

The arousal of the bilateral disputes at the WTO has demonstrated that pursuing a dispute settlement does not constitute alienating behaviour, as coined by small state theory. The New Zealand government took exception with the Commission deciding spreadable butter was not eligible for the preferential quota without consulting it first. The signing of the *Joint*

³⁹ "European Union Concedes Defeat over New Zealand Spreadable Butter", *Agra Europe*, 11 June 1999.

⁴⁰ "New Zealand Faces Penalties over Spreadable Butter", *Agra Europe*, n1722, 15 November 1996.

⁴¹ "New Zealand to Pursue Spreadable Butter Case in WTO", *Agra Europe*, n1806, 10 July 1998.

⁴² "New Zealand Faces Penalties over Spreadable Butter", *Agra Europe*, n1722, 15 November 1996.

Declaration the same year the dispute was settled is likely to avoid the lack of consultations in the future. The unrelenting Commission's refusal to re-address the issue further frustrated the New Zealand government, which felt it had no other course of action but to pursue a WTO settlement. In response to New Zealand's counter action at the WTO, EU Farm Commissioner Fischler stated that he did not consider the New Zealand government's stance as "hostile" and said that he "looked forward to this kind of arbitration procedure".⁴³ The dismissal of WTO action as hostile is an indication that small states are able to pursue dispute settlements without such action being considered 'alienating behaviour' by important trading partners. This further indicates that although a small state's foreign policy may be narrow, it can be independent and pursue different objectives with larger states without resulting in undue harm to their bilateral relationships. The two part settlement that firstly found in New Zealand's favour and secondly prevented a potentially embarrassing WTO report against the EU that could have resulted in further disputes prevented escalation of the dispute and minimised risk of harming the relationship. The consequences for New Zealand could have been far more harmful had the EU not settled and New Zealand pursued the case through the WTO and the damaging Panel report was released publicly.

5.5 ENLARGEMENT

Enlargement is an ongoing reality of the European integration process that presents many challenges to third countries, particularly smaller nations such as New Zealand. Previous enlargements of the EU, especially British accession in the 1970's and the 2004 enlargement, provide valuable models to assess the potential economic impact of future enlargements. The 2004 enlargement became the most momentous step in unification of the entire EU history by

⁴³ "New Zealand to call for WTO panel on spreadable butter", Agra Europe, n1733, 7 February 1997.

finally eliminating the barriers between Western Europe and the former communist states.⁴⁴

The 2004 enlargement, with the accession of ten new member states, raised concern in New Zealand for the potential damage it posed to aspects of the trading relationship, but was also met with optimism as new trade opportunities in Eastern Europe were presented.

Analysis of historical enlargements provides an indication what risks are presented to New Zealand of future enlargements. With the exception of Britain's accession in 1973, previous enlargements in 1981, 1986 and 1995 have had minimal effect on New Zealand despite significantly altering the composition of the EU in terms of its economic, social, cultural, political, demographic and geographic make-up.⁴⁵ The 2004 enlargement posed similar changes within the EU, but on a grander and more diverse scale. The danger for New Zealand arises from the new accession countries possessing similar agricultural economies to that of New Zealand and the competition they presented to New Zealand's existing exports.

Each enlargement alters the geographic and economic composition of the EU. The 2004 enlargement expanded the geographic area of the EU by 34 percent⁴⁶ and increased the population by 17 percent but only contributed 8 percent to the overall economy of the EU.⁴⁷ The most dramatic changes occurred in the farming sector as agriculture formed the main economic sector of the accession states. The number of farmers in the EU increased by 56

⁴⁴ Fontaine, Pascal, (2004), pp 11, Europe in 12 Lessons, Lessons, European Commission, Directorate-General for Press and Communication, Belgium.

⁴⁵ McMillan, Stuart, "Enlarging the European Union; Stuart McMillan discusses the likely impact of projected accessions to the European Union and foresees significant challenges for New Zealand", New Zealand International Review, May-June 2003, vol 28, iss 3, pp 7.

⁴⁶ Ibid.

⁴⁷ Gibbons, M, (2004), pp 12-13, "EU Enlargement and its Effects on New Zealand's Trade with the EU", Presented at, Outside Looking In: Multidisciplinary Perspectives on the EU from the Asia-Pacific Region Conference, Christchurch Arts Centre, 9-11 September 2004.

percent, agricultural land area increased by 29 percent and the total number of farms increased by 74 percent.⁴⁸ Many of these farms are unprofitable because of their small size. The post-communist era witnessed the return of land to local farmers by dividing land into small subdivisions of mostly uneconomic plots. This has hampered agricultural productivity and the need to form farm co-operatives to maintain a large scale advantage, particularly in the Czech Republic and Slovakia.⁴⁹

5.5.1 Perceived Threats of the 2004 Enlargement

The EU embarked on economic and political reforms in the former eastern states as large economic discrepancies exist between the EU-10 and the EU-15 states which will increase competition for New Zealand exporters. Poland and Hungary led the political reforms which were closely followed by Czechoslovakia. Restructuring in the rest of Eastern Europe came at a slower pace and with much hesitation in Bulgaria and Romania, which has stalled their accession to the EU until 2007.⁵⁰ This rapid economic and political transformation has not yet resulted in comparable living standard with that of Western Europe so remain considerably lower than the EU average. Comparatively, Slovenia, Cyprus and Malta are only slightly poorer than New Zealand as their GDP per capita is valued at 70 percent of the EU average. The living standards of those in Latvia and Poland are significantly less with GDP per capita incomes only 33 percent of the EU average.⁵¹ To counter these discrepancies the EU has

⁴⁸ Ockelford, Rachel, September 2004, pp 15, EU Enlargement and the Implications for New Zealand Agriculture, New Zealand Trade and Enterprise.

⁴⁹ Ockelford, Rachel, September 2004, pp 15, EU Enlargement and the Implications for New Zealand Agriculture, New Zealand Trade and Enterprise.

⁵⁰ Holmes and Pearson, (1991), pp 264-265, Meeting the European Challenge; Trends, Prospects and Policies, Victoria University Press, Wellington.

⁵¹ Gibbons, M, (2004), pp 23, "EU Enlargement and its Effects on New Zealand's Trade with the EU", Presented at, Outside Looking In; Multidisciplinary Perspectives on the EU from the Asia-Pacific Region Conference, Christchurch Arts Centre, 9-11 September 2004.

endorsed significant economic, political and social modernisation programmes which are expected to rapidly raise the economic performance of the EU-10 states moulding them into strong competitors for New Zealand exporters. Benefits of accession for the EU-10 states include free trade with other European states, increased labour mobility and the availability of significant central funding, particularly in regard of Farmers for agriculture production. It is therefore expected that agricultural production will rise significantly in the accession countries as the reforms and CAP begin to take effect.⁵²

Enlargement brought the former Eastern European states into the internal free trade zone of the EU and therefore eligible for significant support and protection of their agricultural industries under the CAP.⁵³ New Zealand will not be adversely affected by the strict trade barriers being applied to the EU-10 states because of the lack of trade between the two potential trade partners before accession. Indeed, the CAP may benefit New Zealand by regulating the economies of the accession states to conform to international legal and financial practices which provide an opportunity for safer and more stable trade and investment.⁵⁴

Enlargement caused concern that accession of the EU-10 and the reform of their economies would affect New Zealand's exports to the EU. The fear arises from many of the new EU countries economies being largely agriculturally based and their desire to sell more of their

⁵² Petrovic, M, and Barrer, P, (2002), pp 3, "EU Enlargement to the East as an Opportunity for New Zealand", presented at New Zealand European Studies Conference; The New Europe; Rethinking Frameworks, Auckland, 29-30 August 2002.

⁵³ Ockelford, Rachel, September 2004, pp 8, EU Enlargement and the Implications for New Zealand Agriculture, New Zealand Trade and Enterprise.

⁵⁴ McMillan, Stuart, "Enlarging the European Union; Stuart McMillan discusses the likely impact of projected accessions to the European Union and foresees significant challenges for New Zealand", New Zealand International Review, May-June 2003, vol 28, iss 3, pp 15.

produce within the EU.⁵⁵ This will be in competition with New Zealand's existing agricultural exports and if New Zealand does not respond adequately these exports may diminish significantly. Productivity in the EU-10 countries is however below that of Western Europe. Farmed agricultural land in the new EU-25 has increased by 30 percent with the accession of Eastern European states, but productivity has only increased by 10-20 percent.⁵⁶ European distributors could turn internally for agricultural supplies from accession countries such as Poland which are large agricultural producers. Growth in the agricultural sector in the enlargement countries is relatively high and this growth is expected to continue, if not accelerate, under the Common Agricultural Policy. Already, agricultural exports from these countries are three times larger than New Zealand's.⁵⁷ The new member states employ 13.3 percent of their populations in the agriculture industry, compared to only 4.3 percent of the EU-15 before enlargement.⁵⁸ New Zealand's agricultural exports to the EU, which are the most important export sector, account for approximately 75 percent of its total merchandise trade to the EU.⁵⁹ The New Zealand government recognises there are no alternative markets for some of the products New Zealand exports to the EU each year. Further, it acknowledges

⁵⁵ Ibid.

⁵⁶ Gibbons, M, (2004), pp 14, "EU Enlargement and its Effects on New Zealand's Trade with the EU", Presented at, Outside Looking In; Multidisciplinary Perspectives on the EU from the Asia-Pacific Region Conference, Christchurch Arts Centre, 9-11 September 2004.

⁵⁷ Petrovic, M, and Barrer, P, (2002), pp 3, "EU Enlargement to the East as an Opportunity for New Zealand", presented at New Zealand European Studies Conference; The New Europe; Rethinking Frameworks, Auckland, 29-30 August 2002.

⁵⁸ Gibbons, M, (2004), pp 14, "EU Enlargement and its Effects on New Zealand's Trade with the EU", Presented at, Outside Looking In; Multidisciplinary Perspectives on the EU from the Asia-Pacific Region Conference, Christchurch Arts Centre, 9-11 September 2004.

⁵⁹ Petrovic, M, and Barrer, P, (2002), pp 2, "EU Enlargement to the East as an Opportunity for New Zealand", presented at New Zealand European Studies Conference; The New Europe; Rethinking Frameworks, Auckland, 29-30 August 2002.

for other products the returns New Zealand would achieve in other markets are far below those of Europe.⁶⁰

Investment from Europe and around the world is another challenge of enlargement. It created the possibility New Zealand's investment would be disadvantaged with the new member states competing for foreign direct investment from Western Europe and other investor nations. The threat to this aspect of the trading relationship arises from the potential of existing investors shifting their investments from New Zealand to Eastern Europe. The new member states will actively seek foreign investment in order to foster growth and stability in their domestic economies and meet EU demands for reform.⁶¹ Nonetheless, events of the 1980's decisively rejected the idea of creating a 'fortress Europe' and it is certain Europe will not turn inwards.⁶² An internally focused EU would risk economic isolation from the international trading system which would harm the domestic economies of Europe. For these reasons European investment is likely to remain diversified, spread throughout the globe.

5.5.2 Protection Factors for New Zealand from the 2004 Enlargement

The 2004 enlargement did not negatively impact on New Zealand because of four factors. Firstly, New Zealand's leading agricultural exports to Europe are not produced in large quantities in the Eastern states. Secondly, New Zealand's reputation of producing high quality, disease-free agricultural produce means it will not be in direct competition with the cheaper,

⁶⁰ Rt. Hon. Clark, Helen, Annual Europa Lecture to the National Centre for Research on Europe, 20 November 2002, speech available on the world wide web at: <http://www.europe.canterbury.ac.nz>, accessed on 30/07/2004.

⁶¹ Petrovic, M, and Barrer, P, (2002), pp 3, "EU Enlargement to the East as an Opportunity for New Zealand", presented at New Zealand European Studies Conference; The New Europe; Rethinking Frameworks, Auckland, 29-30 August 2002.

⁶² Patten, Christopher, "EU-New Zealand Relations after Enlargement: Chris Patten Comments on the Implications of the Major Expansion of the European Union Underway at Present", New Zealand International Review, July-August 2003, vol 28, iss 4, pp 11.

lower-quality products exported internally from the EU-10 states.⁶³ Thirdly, seasonality differences between the northern and southern hemispheres provide New Zealand agriculture exporters further protection.⁶⁴ Fourthly, Eastern European economies have poor infrastructure, fragmented land ownership and an ageing workforce which result in low productivity and added difficulties to compete in the international trading system.⁶⁵ The average per capita GDP level in the 2004 accession countries is less than half of the comparable level in the wider EU, reflecting the low labour productivity and low employment rates in the EU-10 states.⁶⁶ New Zealand's agricultural exports to the EU have been protected from the potential negative consequences posed by the 2004 enlargement because the EU-10 countries produce vastly different and inferior products to those which New Zealand exports.

The threat to New Zealand's leading agricultural exports, including sheep meat, dairy and beef has been minimal since enlargement. The levels of dairy, sheep meat and beef exports to the EU are dictated by the restrictive quota allocations which remain the single biggest hurdle to New Zealand's agricultural exporters and prevent any significant expansion.⁶⁷ While the increased competition poses a minimal risk and enlargement could affect market prices once eastern states meet export standards. The New Zealand dairy exports faced the biggest threat

⁶³ Petrovic, M, and Barrer, P, (2002), pp 3-4, "EU Enlargement to the East as an Opportunity for New Zealand", presented at New Zealand European Studies Conference: The New Europe: Rethinking Frameworks, Auckland, 29-30 August 2002.

⁶⁴ Ockelford, Rachel, September 2004, EU Enlargement and the Implications for New Zealand Agriculture, New Zealand Trade and Enterprise.

⁶⁵ Gibbons, M, (2004), pp 14, "EU Enlargement and its Effects on New Zealand's Trade with the EU", Presented at, Outside Looking In: Multidisciplinary Perspectives on the EU from the Asia-Pacific Region Conference, Christchurch Arts Centre, 9-11 September 2004 in NZ Institute of Economic Research, Agriculture in Poland and Hungary, pp 4.

⁶⁶ United Nations Economic Commission for Europe; Economic Analysis Division, "Western Europe and the new EU-10", Economic Survey of Europe, 2005, iss. 1, pp 34.

⁶⁷ NZ Institute of Economic Research, and NZ Trade Consortium, (February 2001), pp 3, Agriculture in Poland and Hungary and the Potential effects on the EU's Agriculture Policies, NZ Trade Consortium Working Paper No. 14.

from enlargement due to the potential of restructuring the dairy industry in Eastern Europe, especially Poland. Herd sizes of cattle in Eastern Europe have declined considerably in the past decade which shrinks any significant competition. The industry restructuring has resulted in an increase in producer efficiency.⁶⁸ Dairy prices within the EU are declining which will directly impact on the profitability of New Zealand's dairy exports to Europe. Nevertheless, the implications of enlargement on New Zealand's dairy exports seem minimal and initial concerns are likely to be unfounded. Sheep meat is only produced in small quantities and is not largely consumed in Eastern Europe. Only Cyprus (12,000 tonnes) and Hungary (9,000 tonnes) produce sheep meat in any notable quantity, but even so their production remains minimal compared to New Zealand's exports to Europe (226,700 tonnes).⁶⁹ Many of Eastern Europe's sheep meat producers are currently restricted by hygiene regulations that prohibit exports of what they produced.⁷⁰ New Zealand's beef exports will not reap any reward or suffer any negative impact from enlargement because the beef quota (500 tonnes) is very low. This coupled with the current beef surplus in Europe that is expected to continue for at least the next five years limits any potential for an increase in New Zealand beef exports to the enlarged EU.⁷¹

Other commodities of export significance include fruit and vegetables and the agri-tech sector. These industries are not largely affected by enlargement, and are likely to increase or remain stagnant for a variety of reasons other than enlargement. New Zealand enjoys a seasonality

⁶⁸ Ockelford, Rachel, September 2004, pp 22-24, EU Enlargement and the Implications for New Zealand Agriculture, New Zealand Trade and Enterprise.

⁶⁹ Ibid, pp 21.

⁷⁰ Gibbons, M, (2004), pp 15, "EU Enlargement and its Effects on New Zealand's Trade with the EU", Presented at, Outside Looking In: Multidisciplinary Perspectives on the EU from the Asia-Pacific Region Conference, Christchurch Arts Centre, 9-11 September 2004.

⁷¹ Ockelford, Rachel, September 2004, pp 22, EU Enlargement and the Implications for New Zealand Agriculture, New Zealand Trade and Enterprise.

advantage in fruit and vegetables. As the economies of Eastern Europe grow and the population's become wealthier, they will increasingly turn to eating a healthier diet which will increase the demand for fruit and vegetables.⁷² Apples are New Zealand's most significant export in this category and are protected by the seasonality differences as they are produced during months Europe is unable to produce them. Competition for apples will increase from the EU-10 countries as they are expected to supply one quarter of Europe's apples within five years, most of which will be produced in Poland and Hungary, but again seasonality differences between the Southern and Northern hemisphere's will protect New Zealand from increased productivity within the EU-10.⁷³ Agri-tech presents a new opportunity to increase exports of manufactured and technologically superior products to the EU. New Zealand has developed a strong technology industry around farming,⁷⁴ which includes industrial goods and is increasingly developing bio-technologies for more efficient farming. Present agri-tech exports to the new member states are relatively minor. New Zealand agri-tech company Gallaghers has been selling electric fences to Eastern Europe since the 1980's, and has secured an estimated 70-80 percent of the market share in The Netherlands.⁷⁵ Further expansion will be difficult as European exporters are already well established in the main Eastern European markets.⁷⁶ If New Zealand were to attempt any significant entry into this market it would be competing with large multinational companies that have already invested

⁷² Gibbons, M, (2004), pp 15, "EU Enlargement and its Effects on New Zealand's Trade with the EU", Presented at, Outside Looking In: Multidisciplinary Perspectives on the EU from the Asia-Pacific Region Conference, Christchurch Arts Centre, 9-11 September 2004.

⁷³ Ockelford, Rachel, September 2004, pp 22-24, EU Enlargement and the Implications for New Zealand Agriculture, New Zealand Trade and Enterprise.

⁷⁴ Ibid, pp 33.

⁷⁵ Ockelford, Rachel, September 2004, pp 34, EU Enlargement and the Implications for New Zealand Agriculture, New Zealand Trade and Enterprise.

⁷⁶ Gibbons, M, (2004), pp 15, "EU Enlargement and its Effects on New Zealand's Trade with the EU", Presented at, Outside Looking In: Multidisciplinary Perspectives on the EU from the Asia-Pacific Region Conference, Christchurch Arts Centre, 9-11 September 2004.

heavily in the region and offer a full range of products. Nevertheless, New Zealand does have a strong reputation in the industry and despite the tariffs, transport costs and strong local competition, should be able to build on its existing markets to expand further in Europe.⁷⁷

The trade potential of Eastern Europe remains high despite these limited predictions of New Zealand increasing its quantity of trade into the region. The United Nations International Trade Centre has revealed many of the new member states have untapped trade potential for New Zealand. Using a gravity model, which is a widely used economic model for assessing international trade and commonly used to analyse Eastern and Central European countries, the United Nations has identified nine of the accession countries and four candidate countries as having untapped trade potential for New Zealand. The underlying theses of the gravity model is that two opposite forces determine the volume of bilateral trade; the level of their economic activity and income and the extent of impediments to trade. Impediments include variables such as transportations costs, trade policies, uncertainty, cultural differences, consumer preferences and national borders. Trade potential equations also include many variables similar to those of small state theory such as GDP, population size and geographic distance between markets.⁷⁸

By applying the gravity model with trade between New Zealand and the Eastern European states, the International Trade Centre has identified Poland, Hungary, Czech Republic, Latvia, Estonia, Cyprus and Lithuania as having untapped trade potential with New Zealand despite

⁷⁷ Ockelford, Rachel, September 2004, pp 33, EU Enlargement and the Implications for New Zealand Agriculture, New Zealand Trade and Enterprise.

⁷⁸ International Trade Centre, (May 2003), pp 1-4, TradeSim (second version), a gravity model for the calculation of trade potentials for developing countries and economies in transition; Explanatory Notes, Market Analysis Section, UNCTAD/WTO.

the large geographic distance. Further, it identifies Slovenia and Slovakia as a successful trading partnership, although very small, and concludes New Zealand has presently concluded its trade potential with these members. Of the possible candidate countries, Romania, Croatia and Bulgaria have been identified as having untapped trade potential with New Zealand, only Turkey is not considered by this model to possess any notable potential.⁷⁹

The bio-security risk is also of significant importance to the EU and the accession countries have been required to bring food production up to EU health and safety standards. The implementation of veterinary control measures, which include import and export controls, animal identification, disease control measures, animal by-product regulations and hygiene standards in meat, milk and fish processing plants, have been a stipulation for accession to the EU. Many of the accession countries have negotiated transitional agreements for the implementation of the strict food safety regulations. Over 530 meat and dairy processing plants in Poland, Hungary and the Czech Republic have secured such agreements. These allow the health and safety production standards of foodstuffs to fall below the minimum EU standards, although they are only allowed to be sold in the country they were produced.⁸⁰ This will slow the development of trade between New Zealand and the accession countries because it reduces the amount of produce the EU-10 countries are able to export. Furthermore, New Zealand's strict border controls, in the interest of its domestic economy, will hamper the development of trade relations.

⁷⁹ International Trade Centre, (May 2003), Importing Country New Zealand: Current Trade vs Trade Potential (based on TradeSim, version 2, Geneva, Switzerland.

⁸⁰ Ockelford, Rachel, September 2004, pp 11, EU Enlargement and the Implications for New Zealand Agriculture, New Zealand Trade and Enterprise.

The most significant threat to New Zealand trade with the European Union does not arise from EU enlargement, which at worst will only impact minimally on New Zealand's economic relations with the EU. Rather, the limited range of agricultural products New Zealand exports to the EU makes the trading relationship vulnerable. New Zealand's top five exports to the EU market make up 54 percent of New Zealand's total merchandise trade to the EU. Factors such as animal disease or regulatory change within the EU market put New Zealand's limited exports at significant risk.⁸¹ As a small state, New Zealand does not possess the resources to diversify its exports to avoid this risk. Instead, it is reliant on strict bio-security at the borders to limit the potential threat of disease and lobbying ability of diplomats and trade experts to seek a sympathetic response when trade regulations are proposed that threaten New Zealand's interests.

5.5.3 Future Enlargements

Enlargement of the EU is far from over, and as future integration takes place new opportunities and challenges, as in the past, will face third countries, such as New Zealand. Bulgaria and Romania are expected to accede to the European Union in 2007 and negotiations with Turkey are also likely to commence. Romania, Bulgaria and Turkey's accession to the community will enlarge the population of the EU by further 100 million people.⁸² Turkey has made key social, economic and political reforms and is now considered likely to enter formal candidate negotiations. With further reforms and stabilisation the EU could extend as far as

⁸¹ Petrovic, M, and Barrer, P, (2002), pp 7, "EU Enlargement to the East as an Opportunity for New Zealand", presented at New Zealand European Studies Conference; The New Europe; Rethinking Frameworks, Auckland, 29-30 August 2002.

⁸² McMillan, Stuart, "Enlarging the European Union; Stuart McMillan discusses the likely impact of projected accessions to the European Union and foresees significant challenges for New Zealand", New Zealand International Review, May-June 2003, vol 28, iss 3, pp 7.

the western Balkans, incorporating countries like Albania, Bosnia-Herzegovina, Croatia, Macedonia, Montenegro and Serbia. The 2004 enlargement dramatically altered the EU's borders and it now neighbours Belarus, Russia and the Ukraine, significantly changing relations with these countries as important cross-border issues, such as immigration and the environment, require cooperation.⁸³ Stretching the borders of the EU has raised the question as to what is Europe and more importantly what it means to be European. At which point will enlargement cease with the geographic borders of Europe be clearly defined. The accession of Turkey will extend the EU's borders to the doorstep of the Mediterranean and even the troubled Middle East. The EU will then share a land border with countries such as Iraq and Syria which will enormously alter its bilateral neighbour relations and the relationships it develops with other third countries.

The 2004 enlargement provides a useful model for assessing the likely impact for New Zealand of the accession of Bulgaria and Romania. As New Zealand currently has limited or no current trade and political relations with these countries their accession will not threaten any current bilateral relations. Indeed, as members of the EU, relations are likely to become closer as they have with the EU-10 countries, particularly Poland. Bulgaria and Romania's agriculture sector presents challenges to New Zealand as it will introduce more competition in the European market that New Zealand exporters will need to contend. Nevertheless, as witnessed with the 2004 enlargement, the impact will likely be negligible.

⁸³ Fontaine, Pascal, (2004), pp 13-14, Europe in 12 Lessons, Lessons, European Commission, Directorate-General for Press and Communication, Belgium.

Turkey presents a significantly different scenario. Over recent years New Zealand and Turkey have established bilateral relations which are exercised through trade and political exchanges. Two way trade between New Zealand and Turkey was worth \$NZ 81.4 million in 2004. This level of trade was comprised of \$NZ 31.6 million of New Zealand exports and \$NZ 49.8 million in imports from Turkey. The majority of trade is in the agriculture sector, with nearly 60 percent of New Zealand's exports comprised of wool, making turkey an important market for New Zealand wool exports. The remainder of New Zealand exports to Turkey are mostly comprised of animal hides and pelts. Turkey's exports to New Zealand are also agricultural based goods including grapes and dried fruits, but also tyres, fabrics and ceramic bathroom fittings.⁸⁴

The relationship is exercised under the framework of the New Zealand-Turkey Joint Economic and Trade Commission (JEC), which provides a ministerial forum to discuss trade access issues and to expand bilateral trade. Politically, the two have forged relations through establishing the Turkey-New Zealand Parliamentary Friendship group that establishes connections with the two parliaments. This framework provides the foundations for increasing relations and it is expected that the trade relationship will be diversified to include the service sector in the near future. Prospects for closer trade cooperation have been identified in the agritech, education, earthquake engineering and public sector reform sectors, as Turkey is keen to exploit New Zealand's expertise in these areas.⁸⁵

⁸⁴ New Zealand Ministry of Foreign Affairs and Trade (September 2004), Turkey Country Paper, available on the world wide web at <http://www.mfat.govt.nz>, accessed on 06/02/2006.

⁸⁵ Ibid.

The future accession of Turkey to the EU is unlikely to threaten New Zealand trade dramatically, although it could hamper the development of certain sectors. As the development of close bilateral relations is relatively new the potential for expanding bilateral trade is great. Should Turkey be granted accession to the EU, its agricultural trade would be subject to the CAP, which will restrict future agricultural trade development with New Zealand. The same high agricultural tariffs and low quotas in place throughout the EU will be applied to Turkey, restricting New Zealand's opportunity to expand trade in this area. Additionally, Turkey may turn inwards to the EU in areas such as education and engineering that have been identified as prospective areas of expansion between New Zealand and Turkey. If this scenario occurs future prospects for diversifying trade with Turkey will be extremely limited.

As with enlargement to the East, Turkey's accession will bring about significant modernisation with economic reforms which could cause concern for New Zealand exporters. Turkey's agricultural sector remains traditional, but does account for 34 percent of total employment, although contribute under 12 percent of total GDP. It's main industries being textiles and clothing, with a fast developing automotive and electronics industry.⁸⁶ Its agricultural industry, while being the largest employer, is only the third largest earner behind the industrial sector and services which contributes the most (58 percent) to GDP. New Zealand's agricultural exports to the EU would be largely protected from Turkey's accession as the agricultural products produced in Turkey are of a largely different nature. The main agricultural commodities are tobacco, cotton, grain, olives, sugar beets, pulse, citrus;

⁸⁶ The World Factbook, (January 2006), Turkey, "Economy", available on the world wide web at <http://www.cia.gov/cia/publications/factbook/geos/tu.html>, accessed on 07/02/2006.

livestock.⁸⁷ As the model of the 2004 enlargement suggests, foreign investment could be at risk with Turkey's modernisation and accession as investors see potential in a 'new' Turkey and divert investments from New Zealand to an enlarged EU. Prior to 2005, foreign direct investment (FDI) in Turkey averaged less than \$1 billion annually, but further economic and judicial reforms and prospective EU membership are expected to boost FDI.⁸⁸ These reforms coupled with turkey's significant high-tech industries could make it an appealing option for investors, although New Zealand would remain a more attractive option for agricultural investors because of its existing reputation and advanced production techniques.

5.6 CONCLUSION

Economic challenges of the bilateral relationship are focused on three central issues; the CAP, WTO disputes and enlargement. Each presents vastly different challenges to overcome and form the basis of much bilateral dialogue. As a small state, New Zealand is chiefly concerned with economic issue, particularly in regard to guarding its existing exports and attempting to gain new overseas markets. It is therefore understandable that the major challenges within the relationship are of an economic nature. These three challenges present obstacles to New Zealand's ability to achieve its desired economic growth and so have become the focal point of bilateral discord.

The CAP is a major hurdle for New Zealand agricultural exporters. It restricts the amount of agricultural goods it is able to export to the European market by way of the quota system and punishes them with high tariffs. New Zealand's inability as a small state to considerably

⁸⁷ The World Factbook, (January 2006), Turkey, "Economy", available on the world wide web at <http://www.cia.gov/cia/publications/factbook/geos/tu.html>, accessed on 07/02/2006.

⁸⁸ Ibid.

influence the EU on these issues has seen it exercise this aspect of the relationship largely through the multilateral setting. The WTO has become the main forum for dialogue concerning the CAP and New Zealand's attempts to gain greater access to the EU market for its agricultural exports. It remains a significant challenge for the economic relationship as genuine reform of the CAP policy promises significant economic growth for New Zealand. Contrastingly, EU negotiators are under considerable pressure from internal agriculture producers, particularly from France, not to increase competition or cut their subsidies. Reform of the CAP is slow, although moving away from the link to production and more to direct payments and financial support for environmental practices.

New Zealand's complaints against the EU at the WTO demonstrate that small states are able to exercise a foreign policy concerning sensitive issues with their larger trading partners. The assertion of the small state framework that small states will avoid alienating behaviour should be perceived within the context of political and security issues, rather than economic discord. This is demonstrated with the EU welcoming the opportunity to resolve these differences at the WTO. It is notable however that New Zealand displayed considerable restraint and consideration for the potential impact on the EU. Had New Zealand not negotiated a settlement and instead insisted on a publicly released Panel report, the spill-over consequences for the EU could have been more severe and the EU may then have been less forgiving of New Zealand.

Enlargement is an ongoing process of European integration. It has occurred throughout the history of the EU, most recently in 2004. Each enlargement poses potential threats to New

Zealand's trading relationship with the EU, most notably the 1973 accession of Britain and the 2004 enlargement incorporating the former Eastern states. This latest enlargement provides a useful framework for predicting the potential impact of future enlargements on New Zealand. The accession of Bulgaria and Romania in 2007 is not likely to have any impact on the bilateral trading relationship.

The eventual accession of Turkey presents a different scenario. New Zealand's economic and political relationship with Turkey is relatively new, however relations are developing and with it the size of the trading relationship. Already bilateral trade is worth nearly \$NZ 100 million annually. If Turkey gains accession, New Zealand's exports will be largely protected, depending on how large bilateral trade reaches before accession, for a variety of reasons. Firstly, New Zealand's export quotas for agricultural commodities will be proportionally increased, so unless bilateral trade increases significantly over the next decade, New Zealand agricultural exports to Turkey will not be drastically affected. Secondly, agricultural exports from Turkey are vastly different to those of New Zealand, meaning Turkey will not create any major competition for New Zealand's existing exports. Thirdly, Turkey's agricultural industry remains very traditional, so major economic and industrial reforms are required to achieve appropriate levels of modernisation to become a significant competitor. However, as with the EU-10 countries, once these reforms are complete the competitiveness of Turkey will significantly increase. The greatest threat with Turkish accession is to levels of foreign investment as investors begin to perceive Turkey as a potential option for investment. This could remove investment from New Zealand in favour of Turkey. The nature of investment

may protect New Zealand from this factor, as the agriculture and agri-tech industries are far more advanced.

CHAPTER SIX

New Zealand-EU Cooperation

6.1 INTRODUCTION

This chapter looks at the areas of cooperation between New Zealand and the EU, what initiatives are in place and how they contribute to the overall relationship. Areas of joint cooperation are outlined in the *Joint Declaration*, and although cooperation is not strictly limited to these areas, they do form the focus of the cooperative relationship. Economic cooperation has been discussed in earlier chapters; therefore the focus of this chapter is the areas identified as of a mutual interest and termed by the *Joint Declaration* as ‘political’ and ‘other’ cooperation. This chapter will first look at the people-to-people links, within this context it will also look at the 2004 Aviation Agreement. After this it will look at multilateral organisations and their importance to the bilateral relationship. It will then look at cooperation with the environment, including chemicals, renewable energies and fisheries. Finally, it looks at development policies within the context of ‘regionalism’ and the lack of cohesion between New Zealand and the EU despite its importance indicated within the *Joint Declaration*.

6.2 PEOPLE-TO-PEOPLE LINKS

Substantial people-to-people ties have bonded New Zealand and Europe for generations. The citizens of New Zealand and Europe are closely connected through culture, history, shared political philosophies and in many cases through family origins. These connections facilitate

a close relationship amongst the leaders of New Zealand, the EU and member states. The extent of ties between the citizens of New Zealand and Europe are quite remarkable. In excess of eighty percent of the New Zealand population traces their family heritage back to Europe,¹ which in-turn gives many Europeans a retrospective family connection to New Zealand. These relationships are often exercised through cultural, educational and sporting exchanges that bring the people of New Zealand and Europe together and often see them competing against one another in sporting fixtures at the highest levels. Rugby Union and yachting are two examples of New Zealand achieving highly and being respected competition of European teams.

The close people-to-people ties between New Zealand and Europe often compensate for New Zealand's small size and distance from Europe.² The cultural and people links formed between citizens of a nation offer a small state an additional resource limited only by family ties and friendships established amongst citizens, their experiences and heritage. As a large portion of New Zealanders originate from European states, particularly the United Kingdom, this people resource is rich and subsequently offers a unique resource often not existent in many bilateral relationships.

These people-to-people links transcend through society and strengthen the ties between New Zealand and Europe. Often the only role the government or Commission plays is to provide resources and frameworks for the people-to-people relations to flourish as citizens pursue joint endeavors. These relationships were highlighted by the Prime Minister at the opening

¹ European Division, New Zealand Ministry of Foreign Affairs and Trade, (2003), European Union Enlargement, available on the world wide web at <http://www.mfat.govt.nz>, accessed on 20/04/2005.

² Ibid.

ceremony of the New Zealand Embassy in Poland in 2005 when she described the partnership with Europe as built on ‘critical’ relationships. The Prime Minister stated that the relationship was based on “shared values, common historic and cultural heritage, substantial trade, and substantial people-to-people links,” before continuing to claim “we want to continue to nurture and strengthen these critical relationships.”³ It is this commitment that propels the political and economic relationship as a natural progression of stately relations and is demanded by the citizens of both New Zealand and Europe.

However, this aspect of the relationship must not be taken for granted or overlooked as Prime Minister Helen Clark eluded to the mass migration from Europe to New Zealand occurred several generations ago and warned “If we don’t [sic] take care to nurture the relationship, we will end up being out of touch with the new developments.”⁴ This statement is indicative of the fact that New Zealand must not rely on its historical connection with Europe to further progress the relationship with the fast changing European Union through the integration process. Many new ties are formed through educational and scientific links or through visa agreements that have allowed citizens to travel retrospectively between Europe and New Zealand and experience one another’s countries for extended periods.⁵

New Zealand’s institutional arrangements have been adopted from European models. New Zealand’s political system and constitutional framework evolved from European systems. In

³ Rt. Hon Helen Clark, (22/04/2005), Official Opening of New Zealand Embassy in Poland, available on the world wide web at <http://www.beehive.govt.nz>, accessed on 20/11/2005.

⁴ Rt. Hon Helen Clark, (20 November 2002), Annual Europa Lecture to the National Centre for Research on Europe, National Centre for Research on Europe, University of Canterbury.

⁵ European Division, New Zealand Ministry of Foreign Affairs and Trade, (2003), European Union Enlargement, available on the world wide web at <http://www.mfat.govt.nz>, accessed on 20/04/2005.

addition to sharing similar political systems, both New Zealand and Europe embrace similar beliefs in democratic practices and share a commitment to the market economy. The basic structure of New Zealand's political system is based on the British Westminster system.⁶ Evolution of the New Zealand political system witnessed the introduction of a proportional electoral system, Mixed Member Proportional (MMP), which was modeled and adapted from Germany's proportional system. The inheritance of the British Westminster system, including its judicial process, arises from the establishment of New Zealand as a British colony in 1840⁷, which resulted in the close contemporary ties amongst their people. Indeed The Treaty of Waitangi, described as "simply the most important document in New Zealand's history,"⁸ was signed between the chiefs of New Zealand's indigenous community, the New Zealand Maori, and representatives of the British Monarch, Queen Victoria. The British monarch remains New Zealand's constitutional head of state, and although represented in New Zealand by an appointed Governor-General,⁹ does provide a significant ceremonial link to the United Kingdom and Europe.

Many attribute the close contemporary relationship with the sacrifices made by young New Zealanders fighting wars in Europe. Nearly half of New Zealand's male population aged between 20 and 45 served overseas in the First World War, of which sixty percent were either killed or wounded. Many of these veterans and their offspring returned to fight once again on

⁶ New Zealand Electoral Commission, (1996), pp 1-3, Everything you Need to Know about Voting Under MMP; New Zealand's Electoral System, GP Publications, Wellington.

⁷ McDowell, and Webb, (1998), pp 100, The New Zealand Legal System; Structures, Processes and Legal Theory 2nd Edition, Butterworths, Wellington.

⁸ Cooke, P, (1990), *Introduction*, Special Waitangi Issue, 14 NZULR 1, in McDowell, and Webb, (1998), pp 189, The New Zealand Legal System; Structures, Processes and Legal Theory 2nd Edition, Butterworths, Wellington.

⁹ McDowell, and Webb, (1998), pp 110, The New Zealand Legal System; Structures, Processes and Legal Theory 2nd Edition, Butterworths, Wellington.

European battlefields during the Second World War.¹⁰ The former battlefields and Commonwealth war cemeteries throughout Europe are of sacred importance to many New Zealanders, many of whom travel to Europe for pilgrimage's to these sacred sites,¹¹ many of whom are veterans of the Second World War that continue to celebrate the close bonds formed with European veterans nearly seventy years ago.

6.3 TOURISM AND TRANSPORT

6.3.1 Tourism

Tourism adds another dimension that contributes to the close people-to-people connections so are a major focus of authorities managing the bilateral relationship. The people-to-people contacts are enhanced by the large quantity of visitors traveling between New Zealand and Europe and vice-versa. The ease of long distance travel since the 1960's has allowed a large tourism industry to emerge in New Zealand with a substantial number of European tourists visiting every year. Likewise, many New Zealanders visit EU countries every year, often staying for extended periods for an Overseas Experience (OE). New Zealand has negotiated Working Holiday Schemes with many EU countries which allow young New Zealanders the opportunity to live and work in European countries for prolonged periods, creating friendships and networks.¹² Conversely, New Zealand has negotiated agreements with a range of European countries that allow young Europeans to visit, live and work in New Zealand

¹⁰ Rt. Hon Helen Clark, (20 November 2002), Annual Europa Lecture to the National Centre for Research on Europe, National Centre for Research on Europe, University of Canterbury.

¹¹ Ibid.

¹² New Zealand has negotiated Visa Waiver Agreements with the following Schengen Countries; Austria, Belgium, Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Iceland, Italy, Luxembourg, Malta, the Netherlands, Norway, Portugal, Slovenia, Spain and Sweden.

establishing similar links with New Zealand and its people.¹³ In 2002, 105 000 New Zealanders traveled to Europe and over 400 000 Europeans traveled to New Zealand.¹⁴ Europe is the third largest tourist market for New Zealand, third only to Oceania and Asia, making Europe an important focus for marketing New Zealand and attracting overseas visitors. Annual visitor numbers from Europe to New Zealand have also steadily increased since the signing of the *Joint Declaration* in 1999, with diversification taking place from the traditional United Kingdom market and attracting visitors from wider continental Europe.¹⁵ These travelers gain a cultural, social, linguistic and historical experience from visiting Europe or New Zealand respectively, returning home and promoting their foreign experiences to colleagues which provides a form of first-hand marketing.

Visa Waiver Agreements have been negotiated with a number of EU countries which work to facilitate the personal relationships, but have been threatened by developments of EU integration with the negotiations of the Schengen Agreement. The Schengen Agreements are a series of agreements negotiated between some EU member states, which eliminate border controls between a number of European countries from a region known as the Schengen Area. The United Kingdom and Ireland are not members of the Schengen Agreements, the ten accession countries from the 2004 enlargement are not yet full members of the Agreements.¹⁶

The Visa Waiver Agreements allow New Zealanders to travel to European countries for up to

¹³ Rt. Hon Helen Clark, (20 November 2002), Annual Europa Lecture to the National Centre for Research on Europe, National Centre for Research on Europe, University of Canterbury.

¹⁴ European Division, New Zealand Ministry of Foreign Affairs and Trade, (2003), European Union Enlargement, available on the world wide web at <http://www.mfat.govt.nz>, accessed on 20/04/2005.

¹⁵ Tourism Research Council New Zealand (June 2004), pp 5, Tourism Satellite Account; 2000-2003, "Transport", available on the world wide web at <http://www.trcnz.govt.co.nz>, accessed on 19/04/2005.

¹⁶ New Zealand Ministry of Foreign Affairs and Trade, Travel Tips; Travel to Europe, available on the world wide web at <http://www.mfat.govt.nz>, accessed on 11/01/2006.

three months in each country.¹⁷ These three month visa waivers, negotiated bilaterally with individual countries, are currently threatened by EU proposals that the right to remain in each country for three months be repealed and replaced by a three month stay in the entire Schengen Area.¹⁸ This move would have profound negative consequences on the people-to-people relationship. It threatens the links formed between the people of New Zealand and Europe as it means New Zealanders visiting Europe will not have the opportunity to visit as many European countries, experiencing less of Europe and meeting significantly less of its population. The networks established through working holidays, educational exchanges and tourism will be dramatically reduced, creating a distance between the linkages formed between the people of New Zealand and Europe.

6.3.2 Aviation Agreement

Travel between New Zealand and Europe is facilitated by air transport services that provide a vital link between New Zealand and the EU.¹⁹ In 2005, New Zealand and Australia signed a joint Air Services Accord with the EU, covering all member states after already having negotiated numerous bilateral air service agreements with individual member states.²⁰ The accord with the EU became necessary as a result of a judgment from the European Court of Justice, ruling that bilateral Air Service Agreements between individual member states and

¹⁷ Ibid.

¹⁸ Rt. Hon Helen Clark, (20 November 2002), Annual Europa Lecture to the National Centre for Research on Europe, National Centre for Research on Europe, University of Canterbury.

¹⁹ European Commission and the New Zealand Government; (March 2004), New Zealand and the European Union; Priorities for Future Cooperation.

²⁰ European Commissions Delegation to Australia and New Zealand, (4 July 2005), news@eu, "EU Forges Aviation Pacts with Australia and New Zealand", Yarralumia, ACT.

third countries were discriminatory and therefore incompatible with EU law.²¹ Previously, New Zealand had negotiated bilateral Air Service Agreements with a large number of member states, which remain in place despite the all-encompassing agreement negotiated with the EU.²² The European Commission stated the agreement with the EU does not replace the existing bilateral agreements; however it extends their benefits to the entire EU in order to ‘bring them into line with European law’.²³

As negotiations commenced for the Air Service Agreement between New Zealand and the European Commission, their objectives of both differed slightly, but the goal of an agreement would achieve the objectives of both. For New Zealand, the overbearing objective was to negotiate an agreement that would allow New Zealand registered airlines access to London. It had been trying to negotiate a bilateral agreement with the United Kingdom for over two years because it would achieve better access for New Zealand’s national airline, Air New Zealand, which was restricted to seven weekly services.²⁴ London is the source destination of most European visitors to New Zealand and as New Zealand’s largest source of visitors, after Australia, provides a lucrative transport market. The United Kingdom is New Zealand’s largest source of visitors, after Australia, and these visitors depart from London. The market is increasing by 10 percent annually, making such an agreement significant for New Zealand

²¹ European Commission, (October 2004), Europa; Activities of the European Union; Summary of Activities, “Air Service Agreements Between Member States and Third Countries”, available on the world wide web at <http://www.europa.eu.int>, accessed on 13/12/2005.

²² New Zealand has signed bilateral Air Service Agreements with the following EU member-states; Austria (2002), Belgium (1999), Denmark (2001), France (1964, 1967), Germany (1987), Ireland (1999), Italy (2001), Luxembourg (1992), Spain (2002), Sweden (2001), United Kingdom (1982) and The Netherlands, which is currently under negotiation but is offering services under the agreement

²³ European Commissions Delegation to Australia and New Zealand, (4 July 2005), news@eu, “EU Forges Aviation Pacts with Australia and New Zealand”, Yarralumia, ACT.

²⁴ Bradbury, John, Deputy Secretary, Ministry of Transport, (16 April 2004), New Zealand Aviation: The Challenge Ahead, address to the 21st Annual Symposium, Royal Aeronautical Society (New Zealand Division).

tourism and Air New Zealand's revenue. However, negotiations for New Zealand airlines to gain greater access to London were vehemently opposed by British airlines.²⁵ During the same month the agreement with the European Commission was signed, New Zealand also signed a new Air Service Agreement with the United Kingdom allowing it unlimited flights into and out of the United Kingdom. The agreement is considered the most liberal ever signed by the United Kingdom, as the only restriction is a cap of the number of passengers New Zealand airlines are able to carry between the United States and Heathrow and Gatwick airports.

The objective sought by the European Commission was to establish an Air Service Agreement with a liberal partner that could provide a model for negotiating a similar agreement with the United States, which is what the Commission strongly desired.²⁶ New Zealand was perceived as a liberal state that would be willing to negotiate an air agreement that could provide a framework for negotiating an open aviation market with the United States. Australia and Singapore were brought into joint negotiations in order to add credence to an agreement that would make it attractive enough to individual member states of the EU and provide a definitive framework for the United States to follow.²⁷

6.4 SUPPORT OF MULTILATERAL INSTITUTIONS

The importance of multilateralism in the relationship is highlighted in the *Joint Declaration*, which makes particular mention of cooperation at the World Trade Organisation and the United Nations. Consistent with the trade focus of the relationship, the *Joint Declaration*

²⁵ Ibid.

²⁶ Ibid.

²⁷ Ibid.

acknowledges a mutual interest in the principles of “free and open markets” and the “strengthening of the multilateral trading system in accordance with the aims and principles of the WTO”.²⁸ The *Joint Declaration* supports the achievement of certain common political aspirations including support for democracy, the rule of law, respect for human rights, disarmament and arms control and non-proliferation and the maintenance of international peace and security. These goals are often promoted through multilateral institutions and Non-governmental organisations, and as such the *Joint Declaration* outlines a mutual support between New Zealand and the European Union to “support the role of the United Nations and promote its effectiveness”.²⁹

As a small state, New Zealand struggles to be heard in the international community. Multilateral institutions provide a framework for which small states, such as New Zealand, are given an opportunity to have their position in certain economic and political issues heard by many other states of all sizes. When regions form into large blocs, such as the European Union, and stand with a united voice at multilateral institutions, their policy positions gain incredible weight that often drown out the stance of smaller states. It is therefore of crucial importance for New Zealand to form strong relationships with considerably larger partners, such as the European Union, so that the two can work together in partnership developing policy positions and agenda's to encourage in multilateral institutions. The *Joint Declaration* provides New Zealand the platform to achieve this recognition, as it commits cooperation between New Zealand and the EU on issues that are of importance to New Zealand.

²⁸ Government of New Zealand and the European Commission, (1999), “Part 1; Preamble”, Joint Declaration on Relations Between the European Union and New Zealand.

²⁹ Ibid, “Part 2; Common Goals.”

Enlargement of the EU will make it more difficult for New Zealand to function effectively within multilateral organisations. The twenty-five member EU has a stronger voice at such institutions than did the previous fifteen, and future enlargements will continue to strengthen the position of the EU as it grows in size and thus power.³⁰ EU enlargement may assist New Zealand's to strengthen its multilateral agenda because multilateral institutions are likely to be more responsive to EU demands, which New Zealand often agrees. Multilateral institutions also allow New Zealand the opportunity to work with and form relationships with individual member states and raise its profile with those countries.³¹ The EU itself, if perceived as a multilateral institution, provides a good example of this. Since the 2004 enlargement, New Zealand has opted to strengthen relations with the EU-10 states. Contact with the Eastern states before accession was extremely limited, however, within months of accession New Zealand had opened an embassy in Poland and begun developing ties with the former communist states.

European integration affects the nature of EU behaviour within various multilateral organisations which subsequently affects the way New Zealand deals with the EU in different multilateral institutions. Because European economic integration is at an advanced level, the EU member states act in concert at the WTO. This gives the bloc of twenty-five members' considerable weighting and difficult for other WTO members to persuade. Contrastingly, as EU political integration is lagging economic integration, the EU member-states maintain their individual independence at the United Nations. However, this does not prevent the EU from

³⁰ New Zealand Ministry of Foreign Affairs and Trade, European Division; European Union Enlargement, available on the world wide web at <http://www.mfat.govt.nz>, accessed on 25/07/2005.

³¹ Ibid.

bloc voting at the UN when all twenty-five member states agree on an identical position, giving the EU considerable political influence on international issues.³²

Consistent with small state theory, multilateralism is a significant part of the relationship in that many bilateral issues are discussed and resolved in the multilateral arena. Small state theory emphasises the use of international and regional organisations as a core arena for participation in international affairs. It also emphasises that small states tend to promote a moral foreign policy and a high level of support for international legal norms. The main multilateral institutions that provide a setting for such a relationship include the World Trade Organisation (WTO), The Cairns Group, United Nations (UN), OECD, International Monetary Fund (IMF), ASEAN, APEC and the World Bank. New Zealand is strongly committed to multilateralism and trade liberalisation, which serves New Zealand's interests as a small state by providing sets of "universally accepted rules and standards governing international behaviour".³³ Small states such as New Zealand are able to successfully challenge larger and more powerful nations through the framework of multilateral organisations that establish economic and political rules for member states to abide by.

6.5 ENVIRONMENT, SCIENCE AND TECHNOLOGY

Discussions on the environment between the New Zealand government and the European Commission have been relatively recent, although they have quickly led to an 'enhanced

³² Ibid.

³³ Goff, Phil, April 2004, "Multilateralism; a Small State Perspective", Speech delivered by the Minister of Foreign Affairs and Trade of New Zealand, Deutsche Gesellschaft Für Auswärtige Politik, Berlin.

appreciation' of common environmental objectives.³⁴ The protection of the global environment remains an important task for both New Zealand and the EU, and as such has become an area of mutual interest for future cooperation. Two areas of particular importance have been identified that the two will focus their cooperation to benefit the environment. The issues of sustainable energy, particularly in regard to climate change issues, and the sound management of chemicals have become the focus of environmental cooperation.³⁵ The sustainable management of global fisheries has also become an issue of significant concern and identified as an area of mutual interest. The environment provides an area that the structural framework could be strengthened to promote closer cooperation to encompass a wider perspective regarding issues of mutual interest such, such as global warming and the Kyoto agreement.

6.5.1 Cooperation Concerning Chemicals

New Zealand and the EU have identified the threat dangerous chemicals pose to the environment as an important area of mutual interest that could benefit from cooperative efforts.³⁶ New Zealand's Minister of Foreign Affairs, Phil Goff, and the European Commissioner for External Relations, Chris Patten, decided to focus on the issue of chemicals in the environment at a ministerial consultation in 2004.³⁷ The bilateral effort to combat the threat posed to the environment by the chemicals is predominately exercised through the multilateral system, particularly the UN which introduced two international treatise, the

³⁴ European Commission and the New Zealand Government; (March 2004), New Zealand and the European Union; Priorities for Future Cooperation.

³⁵ Ibid.

³⁶ Ibid.

³⁷ Hon Phil Goff, (30/03/2004), Goff, Patten Agree on NZ-EU Future Cooperation, available on the world wide web at <http://www.beehive.govt.nz>, accessed on 18/05/2005.

Stockholm and Rotterdam Conventions. The multilateral effort is extended to dialogue during ministerial consultations where an exchange of ideas, knowledge and strategies can take place as to whether unilateral efforts to reduce such toxins in the environment can be successfully implemented within each partners region.

The *Stockholm Convention on Persistent Organic Pollutants* (POPs) (2001) is the leading international law that aims to reduce the effects of dangerous chemicals in the environment and to eliminate their use. POPs are chemicals that remain in the environment for long periods, which then become widely distributed in the environment and are toxic to humans and wildlife. The Stockholm Convention obligates its signatories to reduce and eliminate the release of such chemicals into the environment.³⁸ The European Community and New Zealand became signatories to the *Stockholm Convention* in May 2001 and ratified the Treaty in late 2004.³⁹ New Zealand and the EU identified the elimination of POP chemicals as an area of mutual interest only months before both ratified the *Stockholm Convention*, demonstrating a joint commitment to the multilateral system and improving the global environment.

New Zealand and the EU have also signed and ratified the *Rotterdam Convention on the Prior Informed Consent Procedure for Certain Hazardous Chemicals and Pesticides in International Trade* (Rotterdam Convention) which came into effect in 2004. The *Rotterdam Convention* is an environmental agreement designed to facilitate trade in hazardous chemicals. It promotes shared responsibility and cooperative efforts in the trade of certain chemicals by

³⁸ United Nations Environmental Programme, *Stockholm Convention on Persistent Organic Pollutants (POPs)*, available on the world wide web at <http://www.pops.int/>, accessed on 03/01/2006.

³⁹ Ibid, "Participants."

establishing standards in labelling, monitoring and requiring exporters to provide information on their potential hazardous effects to human health and the environment. Its objective is to assist countries in their risk management strategies to make informed decisions as to whether they possess the ability to safely receive certain hazardous chemicals and therefore the ability to reject chemicals that are deemed too hazardous for their processing.⁴⁰

6.5.2 Cooperation in Renewable Energies

Issues surrounding renewable energies are of vital importance to both New Zealand and the EU. Therefore, cooperation and the development of joint projects to develop more efficient renewable energy sources are a priority of the bilateral relationship. At the same 2004 Ministerial Consultation that decided to focus environmental efforts on toxic chemicals, it was also decided to cooperate in the area of renewable energy as it is relevant to the environment.⁴¹ Energy issues often plague international relations as energy sources are often finite and environmentally degrading. Sources of energy include oil, coal, gas, hydro, wind and solar but unfortunately the more renewable and cleaner the energy source, often the more expensive it is to produce. Energy is often a central factor in international conflict and on a more local scale can cause local communities much distress as their environments are drastically altered to produce sufficient levels of energy. As the extraction of energy is often a complex and expensive task, the issue of cooperating in developing new forms and the extraction of renewable energy sources is closely associated with cooperation in Science and Technology.

⁴⁰ Secretariat for the Rotterdam Convention, United Nations Environmental Programme, “What is the Rotterdam Treaty; Introduction”, available on the world wide web at <http://www.pic.int>, accessed on 03/01/2006.

⁴¹ Hon Phil Goff, (30/03/2004), Goff, Patten Agree on NZ-EU Future Cooperation, available on the world wide web at <http://www.beehive.govt.nz>, accessed on 18/05/2005.

6.5.3 Fisheries Cooperation

Fisheries are of vital importance to New Zealand as it is the fourth largest export earner for the country. Although fisheries exports are declining, due to the strengthening New Zealand dollar, the industry still accounted for \$NZ 1.2 billion in 2003, down twenty percent since 2001. The fisheries sector employs 10 000 people directly and 26 000 people indirectly, particularly contributing to employment in regional areas. In addition, twenty percent of New Zealanders participate in recreational fishing and it also attracts many overseas tourists to New Zealand every year.⁴² Likewise, fishing and aquaculture industries are of important economic importance for European Union economies, while only contributing approximately one percent of member states GNP, the industry creates in excess of a quarter-of-a-million jobs throughout the EU, many of which, like New Zealand, are created in rural or isolated areas.⁴³ The European Union is the world's third largest fish producer, after China and Peru, but it produces an annual deficit as it imports nearly three times as much as it exports.⁴⁴ This deficit allows third fishery exporting countries, such as New Zealand to exploit the lucrative European market.

New Zealand and the EU lack any formal fisheries framework or agreement on tackling the fisheries and aquaculture side of the relationship, however the partners are committed to dialogue on fisheries-related issues every 18-24 months.⁴⁵ While a Fisheries Agreement facilitating trade in such products could prove useful, as an exporting country with an

⁴² New Zealand Ministry of Fisheries, (5 March 2004), Briefing for the Minister of Fisheries, available on the world wide web at <http://www.fish.govt.nz>, accessed on 18/01/2006.

⁴³ European Commission, Director-General for Fisheries and Maritime Affairs, (1998), 2.1; the Fishing Sector in the European Union, "The Common Fisheries Policy", available on the world wide web at <http://www.europa.eu.int>, accessed on 15/01/2006.

⁴⁴ Ibid.

⁴⁵ European Commission and the New Zealand Government; (March 2004), New Zealand and the European Union: Priorities for Future Cooperation.

advanced fisheries sector there is no desire to sell off New Zealand's aqua assets to European corporate's. Trade of fisheries between New Zealand and the EU is facilitated by the Veterinary Agreement that ensures strict sanitary measures are met and restricts the spread of disease.

The key area of mutual interest identified for cooperation is the sustainable management of fisheries on a global basis with a particular focus on combating the increasing illegal, unreported and unrecorded fishing (IUU).⁴⁶ IUU fishing has become a serious global problem that has resulted in an OECD ministerial taskforce being established and a United Nations International Plan of Action to try and curb illegal fishers.⁴⁷ The environmental impact of IUU fishing practices can be profound as it targets specific species that cannot sustain commercial fishing. The practice also threatens efforts to achieve more generic sustainable fisheries, damaging the entire eco-system and has serious economic consequences on legitimate fishing enterprises as it distorts competition.⁴⁸ In 2005 the New Zealand government signed the United Nations' Food and Agriculture Organisations (FAO) Compliance Agreement which aims to combat the practice of illegal fishing.⁴⁹ The European Union has the exclusive competence for fisheries in Europe, giving it the authority to enter into fisheries agreements with third countries and international organisations.⁵⁰ As such, the EU signed the United Nations' Compliance Agreement in August 1996, nearly a decade

⁴⁶ Ibid.

⁴⁷ Hon David Benson-Pope, (29/06/2004) New Zealand Takes Action to Combat Illegal Fishing, available on the world wide web at <http://www.beehive.govt.nz>, accessed on 13/01/2006.

⁴⁸ Ibid.

⁴⁹ Hon David Benson-Pope, (29/06/2004) New Zealand Signs Agreement to Combat Fishing Pirates, available on the world wide web at <http://www.beehive.govt.nz>, accessed on 13/01/2006.

⁵⁰ European Commission, Director-General for Fisheries and Maritime Affairs, (1998), 4.1 The International Dimension of European Fisheries, "The Common Fisheries Policy", available on the world wide web at <http://www.europa.eu.int>, accessed on 15/01/2006.

before New Zealand,⁵¹ demonstrating the joint interest between New Zealand and the EU to combat illegal fishing and conserve global fishing stocks.

Consistent with small state theory, New Zealand considers the problem of illegal fishing best dealt with through the multilateral arena, specifically the United Nations FAO, as it is considered best equipped to deal with the international problem.⁵² The European Union provides another useful framework for New Zealand to tackle the problem of IUU fishing as a multilateral organisation its regulations cover a large number of states. With authority to create legislation covering the entire European Union on fisheries issues, lobbying Brussels is a cost effective and efficient use of resources for New Zealand to participate in the sustainable management of fisheries. New Zealand has criticised illegal fishing operators for attempting to legitimise their operations by exploiting the weak governance of Pacific Island states to establish organised IUU fishing syndicates.⁵³

Small state theory dictates that small states will avoid foreign policy behaviour that will alienate it from larger partners. Criticism of the weak governance and exploitation of micro-Pacific states allows New Zealand a unique opportunity to preach the moral agenda of sustainable fishing, while criticising the practices of micro-states, avoiding alienating larger states. In 2005, New Zealand's environment minister condemned the weak governance of Pacific states for harbouring IUU fishing operations. Stating, at the United Nations, that

⁵¹ United Nations Legal Office; Treatise, Agreement to Promote Compliance with International Conservation and Management Measures by Fishing Vessels on the High Seas, available on the world wide web at <http://www.fao.org>, accessed on 16/01/2006.

⁵² Hon David Benson-Pope, (29/06/2004) New Zealand Takes Action to Combat Illegal Fishing, available on the world wide web at <http://www.beehive.govt.nz>, accessed on 13/01/2006.

⁵³ Hon David Benson-Pope, (13/03/2005) Speech to the United Nations' Food and Agriculture (FAO) Ministerial Meeting, Rome, available on the world wide web at <http://www.beehive.govt.nz>, accessed on 13/01/2006.

“states that flag vessels fishing on the high seas must exercise their responsibilities concerning those vessels...[and that] New Zealand would strongly support the FAO setting guidelines on flag state responsibilities and evaluating performance against them, so that non-performing states can be exposed”.⁵⁴

6.5.4 Closer Environmental Cooperation

While environmental issues mentioned are specifically identified as areas for cooperation between New Zealand and the EU, the two partners share many other areas of common interest in environmental issues. New Zealand and the EU have ratified the controversial Kyoto Protocol, are both concerned with climate change issues, greenhouse gases,⁵⁵ sustainable development,⁵⁶ nuclear disarmament and proliferation of weapons. With such wide ranging issues of mutual interest, seems to be scope to enter into an agreement particularly focused on joint cooperation on the environment. Such an agreement has the potential to include the environmental issues that are currently of common interest to the two partners and therefore diversify the environmental focus, to the benefit of both partners. The present limited scope of the environmental partnership forms a positive beginning in environmental cooperation, particularly as agreement on such cooperation is a relatively recent initiative. However, there is enormous room for expansion in dialogue and joint projects on environmental issues to incorporate the wide-ranging areas of common interest that are not currently discussed.

⁵⁴ Ibid.

⁵⁵ Rt. Hon Helen Clark, (29/11/2005), PM Addresses European Policy Centre, Brussels, available on the world wide web at <http://www.beehive.govt.nz>, accessed on 17/01/2006.

⁵⁶ Rt. Hon Helen Clark, (24/04/2003), Address to the European Policy Centre, Brussels, available on the world wide web at <http://www.beehive.govt.nz>, accessed on 29/07/2005.

6.6 PACIFIC DEVELOPMENT

Development in the Pacific is an important agenda for both New Zealand and the EU. It presents a unique study because it is a region that New Zealand is not a small state comparatively within the region. It is therefore resourced to act as a large state amongst a region of largely micro states. Indeed, throughout the vast region of Melanesia, Micronesia and Polynesia that makes up the Pacific, only Australia and Papua New Guinea possess a population, geographic and economic size comparable, or larger, to New Zealand. The focus for both New Zealand and the EU in the Pacific is providing aid and development. The New Zealand government facilitates this agenda through the governmental organisation NZAID and the EU facilitates its Pacific agenda through its Cotonou development policy. These two independent policies are quite distinct and do not link with any significant cohesion.

6.6.1 Evolution of the European Union's Development Policy

History witnessed the Pacific become a tool of imperialistic domination as states with hegemonic ambitions sought expansive control. Colonial domination throughout the nineteenth and twentieth centuries grew at the same pace as the competitive rivalry amongst the ruling countries of Europe.⁵⁷ The EU's development policy has evolved since provisions were made in the Treaty of Rome (1957) for development assistance to third world countries. Since then, the EU has exercised its development policy through the Yaoundé Convention in the 1960's, the Lomé Conventions (frameworks I, II, III and IV) and most recently the Cotonou Agreement. As such, the European development policies have been widely critiqued,

⁵⁷ Queyranne, Jean-Jack, "The South Pacific; a new frontier?" *New Zealand International Review*, January 2000, vol 25, iss 1, pp 7.

hence their continual evolution, moving away from the traditional dependency assistance to a policy that encourages partnership with the EU to avoid criticism of neo-colonialism.⁵⁸

The Pacific first became important to the EEC's development policy with the accession of the United Kingdom in 1973 that was concerned with the development of the Commonwealth states. UK accession raised the issue of its close association with the largely developing Commonwealth states, and required the EEC to expand its development policy beyond the borders of Africa and into the Caribbean and Pacific where other Commonwealth states were mostly congregated.⁵⁹ To cater for these needs the EEC developed the Lomé Convention in 1975, replacing the former development policy in favour of a new configuration known as the African, Caribbean and Pacific States (ACP).⁶⁰

6.6.2 EU Development Objectives

The Stuttgart Declaration in 1983 outlined the leadership role the EEC would take in its commitment to a free and open trading system, and the successful expansion of this system to developing countries. It was largely criticised as being anti-climatic of many of the ambitions of the European Community, these criticisms were often linked to the 'lame-duck' German Presidency of 1982.⁶¹ While the declaration lacked any real internal reform measures, certain components of it, noticeably the foreign policy aspects, have been considered relevant. Stuttgart did expand the Community towards closer security and foreign policy cooperation,

⁵⁸ Holland, Martin, (2002), pp 25-34, *The European Union and the Third World*, Palgrave, London.

⁵⁹ Ibid, pp 32.

⁶⁰ Ibid, pp 33-34.

⁶¹ Hill, Christopher and Smith, Karen, (2000), pp 125, *European Foreign Policy; key documents*, Routledge, London.

promoting the concepts of ‘consistent action’, ‘international law and order’ and expanding the concept of security from solely political to also incorporate economic aspects of security.⁶²

These principles continued with the signing of the Cotonou Agreement in 2000 that forms the framework of the EU’s contemporary development policy. The key objective of this agreement is the ‘reduction of poverty’ which is embedded in the principles of regional integration, economic and trade cooperation and cooperation efforts between ACP countries.⁶³

The EU is the largest provider of official development assistance (ODA) in the world, which is critical to the successful implementation of these objectives, and contributes over half of the world’s total development assistance budget.⁶⁴

The concept of ‘conditionality’ is central to the EU’s development policy, as with many other donors, and is often a contentious issue amongst ACP states. The Cotonou Agreement established a close link between development policy and respect for human rights, democratisation, the rule of law and good governance,⁶⁵ which are lacking in many ACP states. The EU considers these principles indivisible with that of development, and has devised a three point action plan to ensure they are respected in ACP countries so its development assistance will be maximise positive development. Firstly, it seeks permanent dialogue with ACP countries to establish targets and observe their implantation. Secondly, the EU seeks to strengthen support methods to assist in the implementation of the set targets.

⁶² Ibid.

⁶³ European Commission, (April 2001), “Revamping Development Policy to Increase Effectiveness”, EU-UN Development Cooperation, available on the world wide web at http://europa_eu_un.org, accessed on 10/03/04.

⁶⁴ Ibid.

⁶⁵ European Commission, (August 2005), “Respect for Human Rights in Relation to African, Caribbean and Pacific Countries”, Activities of the European Union; summaries of legislation, available on the world wide web at <http://www.europa.eu.int>, accessed on 28/09/2005.

These methods include institutional support, administrative support and educational assistance, especially targeting fraud and corruption. Lastly, it includes a non-execution clause as a final option if an individual ACP country violates the targeted objectives, although the response is required to be proportional to the offence and not penalise the general population.⁶⁶ This clause ensures ACP states are inevitably in a position of vulnerability in respect of any sanctions because its development policy is focused on establishing trade preferences for under-developed states as well as delivering aid.⁶⁷ Should an ACP state fail to adequately implement development initiatives, their preferential trade and aid could be withheld by the EU as a consequence.

6.6.3 EU Regionalism and its Development Policy

Since the end of the WTO's Uruguay Round, the EU has become actively interested in negotiating regional agreements with a variety of other countries.⁶⁸ Economic and political regionalism has emerged as a by-product of globalisation and is a phenomenon that affects local, national, regional and global governance.⁶⁹ The regional approach transcends through the European Union's international relations, including foreign trade and as a means for achieving meaningful development. Regional integration is embedded in the Maastricht Treaty which states the EU's development cooperation policy shall foster "the smooth and gradual integration of developing countries into the world economy". EU policy asserts that

⁶⁶ Ibid.

⁶⁷ Williams, A, (2004), pp 49-50, *EU Human Rights Policies; a study in irony*, Oxford University Press, Oxford.

⁶⁸ Hill, and Smith, (2005), pp 264, *International Relations and the European Union*, Oxford University Press, Oxford.

⁶⁹ Telò, Mario, (2006), pp 106-143, *Europe; a civilian power? European Union, Global Governance, World Order*, Palgrave Macmillan, New York.

developing countries will increase their competitiveness and become better integrated into the world economy by competing in regional markets.⁷⁰

Regionalism is reminiscent of the EU's own integration process in that it attempts to integrate regional economies to strengthen their global position. The Cotonou agreement delivers a development policy that is focused on three different regions, Africa, Caribbean and Pacific. Rather than delivering aid or assistance to an individual state, the EU implements a macro-regional approach, incorporating many states to achieve the development and global economic integration that will be of greatest benefit to the region. Often countries within a particular region suffer similar barriers to their economic and political development, and in many instances these issues are inter-connected. A regional approach addresses these issues within a regional framework because globalisation requires inter-border solutions to problems that are not confined to state borders.

6.6.4 Development Policy; New Zealand-EU Comparative Difference

New Zealand's development framework is considerably different to that of the EU, with minimal cohesion between the two partners within the Pacific, despite the regions' highlighted focus within the *Joint Declaration*. New Zealand's geographic location in the South Pacific makes its development important for economic, political, social, cultural and family reasons. Previous and current constitutional arrangements with a number of Pacific countries create strong links with New Zealand, particularly countries in Polynesia. The importance of the

⁷⁰ European Commission, (November 1997), "Regional Integration European Union support for regional economic integration efforts among developing countries", Development, available on the world wide web at <http://europa.eu.int>, accessed on 16/02/2006.

Pacific to New Zealand is reflected in the size of its aid to the region, which amounts to an annual budget of \$NZ 110 million, making New Zealand the fourth largest donor to the Pacific after Australia, Japan and the EU.⁷¹ Therefore New Zealand could be perceived as a large state within the Pacific, despite its small state status in its bilateral relations with the EU.

New Zealand approaches the Pacific as a region in terms of its importance to New Zealand, but, unlike the EU, does not focus on regionalism as an approach to delivering its development policy. Multilateralism within Pacific Forum provides a regional approach, however its focus is on the development of bilateral relations in addressing development and aid issues on a state-by-state level, addressing diverse needs of the Pacific region. For instance, one-third of NZAID's funding to Vanuatu is spent on good governance issues while in Fiji New Zealand is a major contributor to the development of its eco-tourism industry.⁷² This bilateral approach is demonstrated with the variation of New Zealand's aid allocations to the Pacific region and the difference in support projects within different states.

⁷¹ NZAID, (August 2003), "The Pacific", Fact Sheet, available on the world wide web at <http://www.nzaid.govt.nz>, accessed on 03/10/2005.

⁷² Ibid.

Table 6.01

New Zealand Aid Allocation in the Pacific (2003/2004) NZ \$, millions	
Cook Islands	\$6.240
Fiji	\$4.100
Kiribati	\$3.140
Papua New Guinea	\$9.360
Samoa	\$8.290
Solomon Islands	\$14.000
Tonga	\$5.665
Tuvalu	\$2.050
Vanuatu	\$5.860
Niue	\$8.275
Tokelau	\$8.600

Source: NZAID, (August 2003), "The Pacific", Fact Sheet.

Unlike the EU, which is focused on integrating the Pacific into the global economy, trade is often a secondary development factor in the distribution of New Zealand's aid budget in the Pacific. Over one-third of its total aid budget (\$NZ 30 million) goes towards education initiatives and only \$NZ 14 million supporting trade initiatives.

The variation in the overall objectives provides another critical difference in the development policies of the EU and New Zealand in the Pacific. The EU establishes the 'reduction of poverty' as the central focus and overall objective of its development policy.⁷³ This contrasts with New Zealand's more ambitious objective of 'eliminating poverty', particularly in the

⁷³ European Commission, (April 2001), "Revamping Development Policy to Increase Effectiveness", EU-UN Development Cooperation, available on the world wide web at http://europa_eu_un.org, accessed on 10/03/04.

Pacific region.⁷⁴ The differentiation between the ‘reduction’ and ‘elimination’ of poverty in the development policy objectives of the New Zealand and the EU indicates a differing focus, and therefore distinctly different objectives to achieve their desired outcomes.

6.7 CONCLUSION

New Zealand’s contemporary bilateral relationship with the EU is built on long established people-to-people ties that transcend through all aspect of the modern relationship. The shared culture and strong ethnic identification with Europe is the basis of these links and strengthens other aspects of the economic and political relationship. The ease of long distance travel allows the enhancement of these links and is largely exercised through tourism. European visitors to New Zealand often stay for extended periods, which further develop personal connections and enhance professional networks. This significantly contributes to New Zealand service exports to the EU, greatly contributing to GDP. There is also a continual flow of Europeans migrating to New Zealand for a variety of reasons, further increasing ties to Europe. New Zealanders that visit Europe also often stay for long periods for either study or working holidays as citizens take advantage of the various travel schemes that’s have been negotiated with EU countries. New Zealand pursued an Aviation Agreement to advance its economic interests in Europe. However, the EU also saw this step as advancing its interests but for different reasons.

As a small state New Zealand has also sought to develop common interests relating to the environment in order to improve its relations with the EU and its citizens. This contrasts with

⁷⁴ NZAID, (August 2003), “The Pacific”, Fact Sheet, available on the world wide web at <http://www.nzaid.govt.nz>, accessed on 03/10/2005.

the United States, which as a large state at a political level is much less concerned with building good relations with the EU. Similarly, in fisheries New Zealand and the EU work closely together to combat illegal fishing practices to protect legitimate commercial fishing. Again, as a small state New Zealand needs to embark on a global effort by participating with larger partners to counter this problem. Although dialogue on this issue is strong, the relationship lacks a formal framework to further enhance environmental cooperation in areas as chemicals, renewable energies and fisheries. An agreement in this area could elicit a much wider environmental scope and facilitate closer cooperation.

CHAPTER SEVEN

Conclusion

New Zealand-EU Relationship

7.1 INTRODUCTION

In chapter two it was shown that on the basis of its size and national perceptions New Zealand was a small, high income state in relation to the European Union. This was applied throughout the thesis and is now applied to the New Zealand-EU relationship in two sections. Firstly, discussing how the six behavioural characteristics of small state theory explain the bilateral relationship between New Zealand and the EU. The argument of this section is that New Zealand, as a small state, has displayed a number of these characteristics, but the framework does not explain the entire bilateral interaction.

This leads into the second part of the conclusion that proposes two areas that have been neglected within the small state framework. Firstly, it asserts regionalism has become a significant concept in international relations, but that small state theory fails to account for this aspect because it remains focused on the traditional sense of state-to-state relations. Secondly, it reveals the weakness of small state theory in failing to provide analysis of the personalities and political parties involved in the formulation of foreign policy. This is an important consideration as it has been shown the governing party and Ministers within the executive exercise considerable influence of a state's foreign policy behaviour.

7.2 NEW ZEALAND'S FOREIGN POLICY BEHAVIOUR IN PARTNERSHIP WITH THE EUROPEAN UNION

7.2.1 Low Participation in World Affairs

This is a generic characteristic as it approaches foreign affairs from a macro-foreign policy approach. In other words, it is displayed in the overall foreign policy of a small state, which makes it of limited value in applying it to a micro case-study of a singular bilateral relationship. However, to reduce the generic application of this characteristic to the level of a micro case-study, such as the New Zealand-EU bilateral relationship, can explain the limited participation within a bilateral relationship.

New Zealand's comparative low participation to that of larger states stems from limited diplomatic resources. Permanent delegations such as Embassies and High Commissions are expensive to establish and maintain. This characteristic is clearly demonstrated from New Zealand in its relationship with the EU. New Zealand has few embassies in the EU and relies heavily on cross-accreditations as an attempt to counter this low representation. The reliance of cross-accreditation limit its ability to participate on a larger scale and reduce its visible presence which makes it difficult establish a high profile. It is for this reason small states identify their most important foreign policy objectives and focus on these issues as they accept their inability to execute a far-reaching or comprehensive foreign policy.

EU Enlargement provides a distinctive example of how New Zealand, as a small state, reacted to maintain its already limited participation in the enlarged Europe. As EU borders expand, New Zealand risks becoming irrelevant to important policy makers in the EU, and its low

profile in the former Eastern states means New Zealand will not be a significant consideration of the many thousands new policy makers entering Brussels from the accession countries. New Zealand invested in a new embassy in Poland in a diplomatic offensive to remain visible in Europe and acknowledging the potential economic threat of the accession states. The new embassy has not increased the overall representation in the EU; rather it maintained the proportionality of its representation as the EU expanded its borders. Without the opening of the embassy to maintain this proportional participation, New Zealand risked submerging to irrelevance on the radar-screens of EU decision makers.

7.2.3 Narrow Scope of Foreign Policy Behaviour

This characteristic of small state theory asserts that small states will limit the scope of their foreign policy to regional issues or matters of direct concern. This explains New Zealand's economic focus in its relationship with the EU as market access is the area of most direct concern. Aside from the economic focus, New Zealand's foreign policy approach with the EU is limited to a few issues of mutual interest. The partners have identified education, science and technology, multilateralism, environmental protection and Pacific development as the key areas of joint cooperation. These issues form the narrow scope of New Zealand's foreign policy objectives with the European Union. Issues outside of this area are discussed in extraordinary circumstances where both partners agree it to be of mutual interest. Issues of this nature sometimes include security, particularly asymmetrical warfare, health issues, such as pandemics, or internal issues such as the European integration process and enlargement.

The assumption that small states produce a diplomatic core less capable of larger states, resulting in a tendency to limit its foreign policy scope to avoid alienating behaviour, is problematic. While a state's limited resources will restrict the size of small states foreign affairs, the intellectual capacity of personnel is not related to size, particularly in a world of significant globalisation allowing such personnel wide-spread educational and vocational experience. This approach seems more suited for the institutional approach from organisations more concerned with development, assuming under-developed states lack the educational establishments to produce similar quality personnel as in larger states. However, developed small states, such as New Zealand, are not confronted with this issue. New Zealand's small state diplomatic capability was displayed with Britain's accession which proved to be as effective as any larger state. New Zealand negotiated special allowances with the EC that have been encapsulated by the title of a Gustafson article entitled "More than they expected, and more than ...they deserved. New Zealand and Britain's Entry to the European Community."¹ Although New Zealand representatives had no direct role negotiating with the EC Six, officials engaged in a major diplomatic offensive, particularly with the British government, to safeguard its agricultural exports.² The success of this offensive is testament to the ability of the diplomatic core of New Zealand as a small state.

Therefore it is unlikely New Zealand limits its interaction with the EU as a result of inferior diplomatic resources to avoid behaviour that may offend or alienate the two partners. Rather than the limited diplomatic resources of small states limiting their foreign policy by failing to identify all policy options, they tend to restrict their foreign policy to focusing their resources

¹ Gustafson, B, "More than they Expected, and more than ...they Deserved. New Zealand and Britain's Entry to the European Community",

² Lodge, J, (1982), pp 35, The European Community and New Zealand, Frances Pinter, London.

to specific areas of importance. Thereby producing an effective and quality foreign policy, but concentrated on a limited range of areas comparatively to the diverse policy of larger states. This is a cost effective foreign policy method while maintaining the quality to the same standards of bilateral partners but with a more limited scope.

The narrow scope contains a distinctive regional focus as one of its main objectives is development within the Pacific, with many of the bilateral issues often discussed within the Pacific context. Both New Zealand and the EU have considerable interest in the Pacific region making it an area of mutual interest. New Zealand, geographically located in the South Pacific, accepts a leading role for the smaller micro-states providing aid and other assistance for their ongoing modernisation and developmental process. Likewise, the EU's Cotonou Agreement brings the Pacific to the forefront of its development agenda. The focus on regional development has included the Pacific in the EU's three regions of importance for its development policies, African, Caribbean and Pacific (ACP) states. New Zealand is an important partner for the EU in its developmental policy in the Pacific because it can act as a regional agent for the EU. Dialogue between the two partners concerning the Pacific can influence EU development policy and identify areas most important for poverty alleviation throughout the region.

7.2.4 Economic Focus

New Zealand's participation with the EU is limited mostly to economic issues. This is for two reasons. Firstly, New Zealand is still economically dependent on the EU for many of its leading exports, and secondly, because the European political integration is considerably

lagging that of economic integration. The EU is an entity that exercises most of its political foreign policy at the member-state level because of resistance from individual states reluctant to surrender this aspect of sovereignty to a central authority. New Zealand also exercises much of its political foreign policy through the multilateral sphere at the United Nations, where, as a small state, it is granted the opportunity to discuss foreign policy in a setting with influential international actors.

The dominating aspect of the small state framework is the display of a foreign policy behaviour centred on economic issues. This arises from the fact that small states stand to benefit the most from establishing and growing trade relations with third countries. Economic growth achieved by trading with other countries presents small states the greatest potential to best meet their domestic needs. Unfortunately, as small states possess limited resources, their ability to diversify export commodities is restricted. Consequently, the economies of small states are highly reliant on the export of a limited range of commodities. New Zealand is no exception to this rule. As an agricultural producing nation its exports are dominated by the agricultural industry, particularly dairy, sheep-meat, wool and beef. This leaves New Zealand vulnerable to fluctuations in global agricultural markets and world prices of agricultural products. It is also vulnerable to significant changes in the markets of its leading importers such as Australia, United States and the European Union.

The dependency on European markets, particularly the United Kingdom, stems from colonialism in the nineteenth and twentieth centuries. As a British colony, and after independence, New Zealand exporters remained dependent on Britain to purchase the majority

of its agricultural exports, making the British market vital to New Zealand's economic wellbeing. Britain's accession negotiations throughout the 1960's placed New Zealand on warning that its international trade was significantly threatened and that it would need to diversify its overseas markets. Britain's subsequent accession to the European Community in the 1970's resulted in special, and remarkably generous, economic arrangements for New Zealand as part of Britain's accession negotiations. The traditional reliance on the British market, as a by-product of colonialism, has resulted in New Zealand's contemporary trade relations with the EU. Post-British accession, New Zealand exports have witnessed a limited diversification to the wider EU on continental Europe. Although, New Zealand sought to diversify its trade to the Asia-Pacific region it is geographically located as import quotas and high tariffs have curbed the potential to significantly increase agricultural trade with Europe.

Tradition then provides an explanation to why the EU is a major trading partner for New Zealand. The historical ties add a unique dimension to the relationship which is not present in many bilateral relationships. It does not however explain the economic focus of the contemporary bilateral relationship. This stems from New Zealand displaying behaviour typical of a small state focusing on economics because it presents the greatest benefit. As New Zealand's second largest trading partner, the EU is a vital market of New Zealand exporter's and therefore of crucial importance to the government in forming its foreign policy objectives. Missions to the EU are dominated by Ministers responsible for trade and dialogue during Ministerial Consultations is focused on trade related issues. Multilateral institutions also provide a forum for exercising the bilateral relationship and the WTO is the primary

institution this occurs, as it present economic advantages for the bilateral economic relationship.

As a small state, New Zealand's economy, and therefore its citizens' standard of living, is dependent on foreign trade. The EU is New Zealand's second largest trading partner and provides one of its most important overseas markets for its major agricultural commodities. Its developed and stable economy provides a lucrative market tendering prices above those achievable in many alternative markets. Bilateral trade statistics portray New Zealand's contemporary reliance on European markets and thus its economic focus of its bilateral relationship with the European Union. Contemporary trading relations are comprised of merchandise trade, service trade and investment. Bilateral merchandise trade in 2004 was worth in excess of \$NZ 11.5 billion, with New Zealand running a twenty percent balance deficit. The EU remains the destination for two-thirds of all New Zealand produced sheepmeat, and one-third of New Zealand's butter and wool sales. The value of bilateral service trade in 2001 was worth €1.6 billion and has demonstrated a trend of rapid growth. Tourism and export education are vital service sectors for New Zealand and European's were significant contributors to these sectors. Bilateral investment remains consistent with historical patterns since colonialism created New Zealand's dependency on the United Kingdom, which remains its single largest origin of foreign investment and its second largest destination of foreign investment to Germany.

7.2.5 Internationalism through International Organisations

Multilateralism is a major focus of the bilateral relationship because it is important to New Zealand, the EU and many of its member states. The *Joint Declaration* outlines the essentiality of cooperating to promote and support important multilateral institutions as the WTO and the UN. These institutions are considered important to both partners on an individual basis which makes joint cooperation within such institutions a natural step for the relationship.

The relationship has been further internationalised by sharing a set of common goals that require wider global participation to realise their successful implementation. New Zealand and the EU are concerned with the proliferation of weapons, global warming, sustainable development and good governance issues particularly in relation to development. Multilateral institutions are the most effective method of achieving results concerning issues of a global nature that are unable to be restrained by artificial borders. The cross-border nature of many of the political issues within the New Zealand-EU relationship requires a global effort that can only be achieved by encouraging global participation within a multilateral forum.

Individual positions, especially of small states, are strengthened within such institutions by identifying common positions with third parties and jointly supporting initiatives. This technique is the path taken by the EU at the WTO with the Commission representing all twenty-five member-states. Bloc voting and negotiating is necessary in multilateral institutions, and if not part of a formal voting bloc such as the EU at the WTO, establishing bilateral relationships where common positions are identified can be an effective method of

small states to enhance their policy positions. Because European integration has not yet expanded as far as political integration, the EU member-states still individually at the United Nations. Nevertheless, they share common views on a variety of issues debated at the UN and New Zealand shares many of these views.

Small states display a tendency to enter into areas of mutual cooperation directly relevant to the bilateral relationship, rather than dialogue on internationally sensitive issues with their. This is evident within the New Zealand-EU relationship. The areas identified in the *Joint Declaration* and subsequent *Priorities for Future Cooperation*, outline areas of cooperation that dominate the relationship outside of the economic sphere. These areas have been identified due to the mutual interest shared between New Zealand and the EU, avoiding the introduction of internationally sensitive matters to the bilateral relationship. Sensitive areas within the bilateral relationship are often discussed within multilateral institutions. For instance, the CAP that is detrimental to New Zealand's trade with the EU is discussed within the WTO framework during trade liberalisation negotiations. The internationalisation of the CAP at the WTO allows disagreement on an important area of the bilateral relationship while limiting any negative impact on the wider context of the relationship.

7.2.6 Moral Emphasis on International Issues

Small states are expected to assume a moral foreign policy to avoid resentment from their trading partners. This behavioural characteristic is problematic for a number of reasons. Firstly, it assumes a standard perception of morality amongst states. A policy considered moral by one state might be considered immoral by another, thereby creating resentment.

Because small states are focused on economics in their foreign policy they form bilateral relationships with a variety of third states, many of whom possess vastly different religious, cultural, political, economic and social values. It is naive to assume the vast array of trading partners with such diverse values will all possess similar considerations of morality. Therefore, while a small state may demonstrate behaviour that attempts to minimise offence to its bilateral partners, it cannot display any form of conclusive morality.

The most effective method of minimising offence is to focus on issues that are less likely to cause offence and discuss sensitive issues in multilateral institutions. This is certainly displayed by New Zealand as it interacts with the EU. Its narrow field of cooperation with the EU limits the potential for serious disagreement and economic disputes are settled at the WTO. New Zealand has complained against the EU twice at the WTO. As a multilateral institution, the WTO presents New Zealand, as a small state, greater opportunity to achieve fair results and not be forced to accept unfair regulations of the larger EU. New Zealand's success of concerning its complaints at the WTO suggests its international trading policies are morally correct in terms of international standards and multilateral institutions allow it, even as a small state, the opportunity to successfully defend its economic interests against larger actors. The WTO also provides a legitimate international forum for negotiations of sensitive issues, such as the CAP. This provides a buffer for volatile issues to be discussed outside of the direct bilateral relationship. Dialogue on the CAP has highlighted significant disagreement between New Zealand and the EU concerning the production and trade of agriculture commodities. It would be incorrect to assert one partner's position possesses a higher level of morality than the other, however, New Zealand has proven itself as a world leader in trade liberalisation.

7.2.7 Avoidance of Foreign Policy Behaviour that Might Alienate More Powerful States

The fear of alienating larger states is the most controversial behavioural characteristic as it fails to address global diversity and claims the limited resources of small states produces an intellectual deficit within their diplomatic core resulting in an inability to identify a full scope of foreign policy options. This behaviour shares similarity with the morality criteria as it assumes a comprehensive foreign policy can be developed that will please all significant trading partners. The diversity of bilateral partners renders the ability to achieve this balance very doubtful. Within the context of the New Zealand-EU relationship, New Zealand has demonstrated maturity in its foreign policy approach by avoiding unnecessary conflict by limiting its scope of interaction. However, regarding issues of vital interest New Zealand has not displayed any hesitation in confronting the much larger EU, although this is primarily done with the added protection of international law and regulations at multilateral institutions.

New Zealand's complaint at the WTO against the European Union regarding butter in the late 1990's, and presently as a third party to another complaint led by the United States and Australia, displays behaviour contrary to the alienation characteristic. When confronted with unfair trade practices a small state has the option of either tolerating such practices to the detriment of exports, or raising a dispute at the WTO, which could be considered alienating behaviour. Again, the multilateral system provides a considerable degree of protection as it removes the dispute from the bilateral relationship and is resolved within a more distant and neutral forum. Nonetheless, this does demonstrate New Zealand acting outside the sphere of typical small state behaviour by taking action that could cause resentment from the EU, and certainly European farmers the initial action causing the disputes was designed to favour.

New Zealand took this action to protect its vital interests, and in the case of the current WTO dispute regarding trademarks and geographical indicators, New Zealand has insulated its position by joining a complaint led by its other major trading partners. New Zealand has backed down on other occasions where its vital economic interests are threatened by an uncompromising position of morality. The Rainbow Warrior Affair is testament to this. The New Zealand government's decision to extradite the culprits responsible for an act of terrorism in its territory, against media, public and government desires, after its economic interests with France and the EU were threatened demonstrates behaviour reminiscent of small state theory. The contrast of the Rainbow Warrior incident and New Zealand's action against the EU at the WTO reveals it is prepared to indulge in potentially alienating behaviour only when its vital economic interests are threatened, and will sacrifice morality in favour of protecting these interests. Additionally, it seems more willing to act in such a way only with the added protection of multilateral institutions, particularly the WTO, and has demonstrated a reluctance to take a bold bilateral stance on issues of importance.

7.3 REFINING SMALL STATE THEORY

The nature of the international community, the bilateral and multilateral relationships that form it and the variables that influence its dynamics are constantly changing. Therefore an adaptable framework that explains these interactions provides a more robust theory than a stagnant framework that outdates by failing to adapt to the developing international climate. Academic definitions of a small state have developed from the application of common variables, to a more generic perception approach. The perceptual contextualisation of a small

state improves the rigidity of the theory by avoiding the disagreements surrounding the definition of a small state. This allows the theoretical application to be applied to state's that perceive themselves, or which other state's and institutions perceive, to be small.

Nonetheless, other aspects of the theory require development to further the applicability of the theory. State integration, conceived from globalisation, has altered the environment of international relations. The phenomenon of regionalism has become a major concept that has altered the disposition of the international community and the necessary relationships established within it. Other longer standing issues also need to be addressed by a refined small state theory. The small state framework makes no allowance for contributing the foreign policy behaviour of small states to the limited personalities involved in the formulation of its direction. Additionally, the concept of 'benign neglect' may explain many of the small state behavioural characteristics but is neglected to be included within the characteristic framework of small state theory.

7.3.1 Regionalism

Small state theory traditionally provides a framework for explaining state-to-state relations. This ignores the contemporary development that states often act within regional groupings to enhance their regional interests at the global level. EU integration is the most successful example of this, but it is a phenomenon that has taken place on a far grander global scale. Regionalism is dominated by economic quests of regions assuming their weighting in the international community will be strengthened by size. Economic regional integration can bring significant benefits to regions that are otherwise distorted by economic and trade

indifference. Without consideration of the risks involved in monetary union, a common currency amongst a geographical region can enhance trading relationships internally within the regional bloc and also with external trading partners. Likewise, political integration, or establishing a common position on international matters of importance can enhance the influence of regions within multilateral institutions such as the United Nations. European political integration conclusively demonstrates this concept. If political integration were to eventuate to the same level of economic integration, the EU capacity at the UN Security Council as it is currently structured would be significantly strengthened if it were to act in unison as it does in an economic capacity at the WTO. Two member-states of the EU, Britain and France, have permanent seats at the UN Security Council allowing each the powerful veto. Should a united EU represent Europe at the UN, the single entity would possess significantly larger influence than other members. This principle demonstrates the benefits of regionalism, particularly within the context of multilateral institutions.

Regionalism explained

Regionalism has become a rampant international concept since the growth of globalisation. Indeed, the regional grouping of states is often regarded as the appropriate response to economic and cultural constraints imposed by the globalisation of market forces.³ The contemporary international system has witnessed the preference of individual states to unite as regional groupings in order to strengthen their economic and political positions within the international community. This has dramatically altered the conception of contemporary international relations as the dynamics of bilateral relations have merged into a matrix of

³ Molchanov, M, "Regionalism and Globalisation; the case of the European Union", Perspectives on Global Development and Technology, 4.3, September 2005, pp 431.

regional groupings often acting together within multilateral institutions. The level of regional integration varies amongst actors. The EU, the most successful example of regional integration, has attempted to achieve a more dramatic integration process incorporating economic and political integration, while other regional groupings such as APEC remain solely focused on economic issues.

Regionalism and small states

State-centric theories explaining international relations are increasingly perceived as ideologically naïve in that they fail to adjust to the global phenomenon of regionalism in the international system.⁴ The gradual elimination of state borders created by the integration process of globalisation has enlarged many small states influence in international relations by grouping together in regions, often with much larger states. Regionalism has permitted individual states to retain their sovereignty but strengthens their influence by acting as a bloc. This changes the dynamics of small states allowing them increased influence in the international community as they need only persuade a regional grouping to adopt their favoured policy, and allow the weight of such groupings to advocate a policy within multilateral institutions. This may require some compromise on their foreign policy objectives, but once a preferred policy is finalised it gains more weight on the international stage with the backing of a larger regional grouping.

This presents New Zealand many opportunities within the South Pacific region. As a large actor within the geographical setting that provides significant development assistance to the

⁴ Telò, Mario, (2006), pp 106, Europe; a civilian power? European Union, Global Governance, World Order, Palgrave Macmillan, New York.

poorer micro-states it gains control influencing regional policy thereby enhancing its international policy.

7.3.2 Political and Leader Personalities

Small state theory fails to provide an analysis of the individual personalities of key personnel that dominate the direction of a state's foreign policy behaviour. Individual leaders within the government dominate foreign policy development and implementation, often undeterred by domestic lobbyists.⁵ This contributes to a small state's narrow scope of foreign policy because it is directed by a few high ranking actors within the government. This characteristic is evident within the New Zealand-EU relationship that, since the signing of the *Joint Declaration* in 1999, has been dominated by an exclusive selection of government ministers. Since 1999, the New Zealand Labour party has been re-elected twice, which has returned the same personalities to the management of New Zealand's international relationships. As a small state, this management has been primarily in the hands of three ministers; the prime minister, minister of foreign affairs and trade and the minister for trade negotiations. The personalities in these positions have remained identical during Labour's tenure on the executive benches of parliament, only being slightly re-shuffled after the 2005 election to cater for coalition arrangements. This provides consistency to the ongoing relationship with the EU but does risk stagnation which could be a contributing factor to the under-formalisation of the bilateral relationship.

Another closely related aspect of small state foreign policy is the influence individual political parties exercise over the behavioural characteristics displayed by small states. The Labour

⁵ Hey, J, (2003), pp 186, Refining our Understanding of Small State Foreign Policy, Lynne Rienner Publishers,

Party and the National Party are the two main political parties in New Zealand, each aligning to a different political and economic ideology. Once a political party has formed a government, these ideologies become government policy thereby influencing the implementation function of the foreign ministry. The formulation of a new government that holds vastly different views concerning foreign policy will deliver significant impact on the direction of established bilateral relationships and the functioning of foreign policy at multilateral institutions. That is not to say such ideological changes will be detrimental to the state's foreign policy, merely that it could potentially influence the direction of existing relationships by re-assessing the areas of importance.

7.4 CONCLUSION

Small state theory has demonstrated an ability to adapt to the changing international climate with the contemporary development of the perceptual approach in devising an application method. By applying this framework to the case-study of New Zealand-EU relations, it has been demonstrated New Zealand's foreign policy behaviour is consistent with the small state approach vis-à-vis the much larger EU. Another future study might propose applying the same framework to New Zealand within the Pacific context, assessing whether New Zealand, a comparatively larger state within this region, displays the same foreign policy behaviour, or if this changes the dynamics and it acts like a larger state. Certain flaws within the theory have been exposed in this thesis. It neglects the influence of individuals and political parties in the formation of a foreign policy and the implementation of such a policy. It also fails to adequately acknowledge the global trend for regional integration, whether on a supranational level such as the EU or a sole economic mandate such as APEC. The theory needs to adapt to

cater for this development of globalisation so that it can provide a more rigid explanation of the contemporary nature of international relations.

Small state theory has demonstrated New Zealand's difficulties in maintaining a visible presence within the EU, particularly as enlargement progresses. New Zealand's limited diplomatic representation is typical of small states due to its limited resources and the high costs of maintaining an embassy. The bilateral framework that facilitates the relationship is perceived as somewhat weak and failing to elicit the full potential of the relationship. While New Zealand's foreign policy as a small state will remain narrow, certain areas of cooperation with the EU could be strengthened with a widening of cooperation. Areas that would benefit from enhanced cooperation include health, facilitation of the service trade and closer security cooperation. The structural agreements that facilitate the relationship need improvement to cater for the expansion and enhancement of current of cooperation. As EU political integration advances, New Zealand will be required to widen its focus from economics to incorporate greater political dialogue and cooperation. Although economics will remain the focus, failing to make the transition to wider political issues could result in New Zealand becoming increasingly irrelevant in Brussels as it adopts a wider political agenda. Nonetheless, within the foreign policy context, the concepts of regionalism and small states conclusively rests deliberation of the ancient aphorism that size, does indeed, matter.

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